

COLORADO LOTTERY
FINANCIAL AND COMPLIANCE AUDIT
June 30, 2023 and 2022

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Members of the Legislative Audit Committee:

We have completed the financial statement audit of the Colorado Department of Revenue – Division of Lottery (the Lottery) as of and for the year ended June 30, 2023. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

We were engaged to conduct our audit pursuant to Section 44-40-112, C.R.S., which requires the State Auditor to annually audit the Lottery. The reports we have issued as a result of this engagement are set forth in the table of contents which follows.

FORVIS,LLP

Denver, Colorado
September 29, 2023

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COLORADO LOTTERY
Report Summary
Years Ended June 30, 2023 and 2022

Purposes and Scope of Audit

Authority, Purpose and Scope

The Office of the State Auditor, State of Colorado, engaged FORVIS, LLP to conduct the financial audit of the Colorado Department of Revenue – Division of Lottery (the Lottery) for the Fiscal Year ended June 30, 2023. The audit of the Lottery was performed under authority of Section 44-40-112 C.R.S., which requires the State Auditor to conduct an annual audit of the Lottery. The purpose of the audit was to express an opinion on the financial statements of the Lottery for the year ended June 30, 2023.

FORVIS, LLP conducted the audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States of America. FORVIS, LLP did not audit the financial statements for the year ended June 30, 2022. Those financial statements were audited by other auditors.

The purposes and scope of this audit was:

- To express an opinion on the financial statements of the Lottery as of and for the year ended June 30, 2023, including consideration of the related systems of internal controls as required by auditing standards generally accepted in the United States of America.
- To test the Lottery's compliance with certain rules and regulations governing the expenditure of State funds for the year ended June 30, 2023.
- To evaluate progress in implementing the prior audit recommendations, if any.

Summary of Major Audit Comments

Audit Findings and Financial Statement Audit Report Section

There were no prior year audit recommendations outstanding.

There were no new recommendations as a result of the current year audit.

COLORADO LOTTERY
Report Summary
Years Ended June 30, 2023 and 2022

Audit Opinions and Reports

The independent auditor's reports, included herein, state that the financial statements of the Lottery are fairly stated, in all material respects, in accordance with accounting principles generally accepted in the United States of America, and that no material weaknesses in internal controls were identified during the course of the audit. Our report also includes a paragraph stating that we did not audit the financial statements of the Lottery for the year ended June 30, 2022, which was audited by other auditors, and their report thereon dated October 31, 2022 expressed an unmodified opinion on the financial statements of the Lottery.

Significant Audit Adjustments

There was one proposed audit adjustment as a result of the audit relating to a recognition of prize liabilities on the second-chance prizes. The amount of the proposed adjustment was approximately \$250 thousand and Lottery management elected to not record this adjustment as the amount was deemed immaterial. See the schedule of passed adjustments attached to the Auditor's Communication of the Legislative Audit Committee and Lottery Commission located on page 109.

Auditor's Communication to Legislative Audit Committee and Lottery Commission

The auditor's communication to the Legislative Audit Committee and Lottery Commission describes the auditor's responsibility under auditing standards generally accepted in the United States of America and significant management judgments and estimates. This communication is located on page 109.

COLORADO LOTTERY

Background

Years Ended June 30, 2023 and 2022

In 1980, Colorado voters passed a referendum that added Article XVIII, Section 2(1) to the Colorado Constitution, allowing the establishment of a state-supervised lottery. Senate Bill 82-119 created the Lottery as a division within the Department of Revenue. The Lottery began operations on July 1, 1982 and sold its first lottery ticket on January 24, 1983.

During Fiscal Year 2023, the Lottery employed 101 employees in its headquarters in Pueblo and branch offices in Denver, Fort Collins and Grand Junction.

The Lottery games are governed by rules and regulations established by a Commission of five members appointed by the Governor and approved by the Senate. By statute, Lottery Commission members must include an attorney, a certified public accountant and a law enforcement officer. Members may serve up to two 4-year terms.

Colorado Revised Statutes (C.R.S.) Section 44-40-111(9), requires that no less than 50 percent of the total revenue from sales of lottery tickets be for prizes. The legislation also provides guidelines for distribution of net proceeds to beneficiary agencies. Article XXVII of the Colorado Constitution states that “net lottery proceeds” (that is, proceeds after the payment of prizes and lottery expenses and a reserve for future operations) are to be distributed to the Conservation Trust Fund within the Department of Local Affairs, the Division of Parks and Wildlife within the Department of Natural Resources, and the Great Outdoors Colorado Trust Fund (GOCO). The amount distributed to GOCO is limited by a constitutional cap, which was calculated to be \$75.7 million for the year ended June 30, 2023.

Prior to 2002, amounts exceeding the GOCO cap (the spillover) were distributed to the State General Fund. For Fiscal Years 2002 through 2007, the spillover funds were distributed to the State Public School Fund Contingency Reserve. For Fiscal Year 2008, the spillover funds were transferred to the Lottery Proceeds Contingency Reserve Fund. For Fiscal Years 2009 through 2020, the spillover funds were required to be transferred to the State Public School Capital Construction Assistance Fund pursuant to Section 22-43.7-104, C.R.S. On June 21, 2021 House Bill 21-1318 concerning the creation and funding of the Outdoor Equity Grant Program was approved by Governor Jared Polis and established the distribution of the amounts exceeding the GOCO cap for Fiscal Year 2021 and beyond. The bill added Part 2 to article 9 of title 33, specifically Sections 33-9-201 through 33-9-206, C.R.S and Subsection (12) to Section 44-40-111, C.R.S., changing the distribution of any excess amounts over the statutory limit for Fiscal Year 2021 and beyond. According to Sections 33-9-201(1)(a) and 33-9-203, the Outdoor Equity Program will be governed by the newly created Outdoor Equity Board in the Division of Parks and Wildlife. The purpose of the program is to increase access and opportunity for underserved youth and their families to experience Colorado’s open spaces, state parks, public lands, and other outdoor areas through programs with a focus on conservation, the environment, outdoor education, or outdoor recreation. The spillover amount for Fiscal Year 2023 shall be transferred as follows: the first \$2.25 million to the Outdoor Equity Fund, the next \$3.0 million to the State Public School Capital Construction Assistance Fund, and any remaining amounts divided to: 25 percent to the Wildlife Cash Fund, 25 percent to the Parks and Outdoor Recreation Cash Fund, and 50 percent to the State Public School Capital Construction Assistance Fund.

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Independent Auditor's Report

Legislative Audit Committee and Lottery Commission
State of Colorado, Department of Revenue, Lottery Division
Denver, Colorado

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the Colorado Lottery, an enterprise fund of the State of Colorado, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Colorado Lottery's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Colorado Lottery as of June 30, 2023, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Colorado Lottery, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Year Audited by Other Auditors

The financial statements of the Colorado Lottery as of and for the year ended June 30, 2022, were audited by other auditors whose reported dated October 31, 2022, expressed unmodified opinions on those statements.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 2 – Adoption of New Standard to the financial statements, effective July 1, 2021, the Colorado Lottery adopted Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96). Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 1 – Nature of Operations and Summary of Significant Accounting Policies, the financial statements of the Colorado Lottery are intended to present the financial position and cash flows for only that portion of the financial reporting entity, the State of Colorado, which is attributable to the transactions of the Colorado Lottery. They do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2023, and the changes in its financial position, or, where applicable, its cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Colorado Lottery's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Colorado Lottery's internal control. Accordingly, no such opinion is expressed.

Legislative Audit Committee and Lottery Commission
State of Colorado, Department of Revenue, Lottery Division

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Colorado Lottery's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension, and other postemployment benefit information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Colorado Lottery's basic financial statements. The Schedule of Revenues and Costs for Scratch and Jackpot Games, Schedule of Percent of Prize Expense to Gross Ticket Sales and Budgetary Comparison (Supplementary Information) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the Schedule of Revenues and Costs for Scratch and Jackpot Games, Schedule of Percent of Prize Expense to Gross Ticket Sales and Budgetary Comparison are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Legislative Audit Committee and Lottery Commission
State of Colorado, Department of Revenue, Lottery Division

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2023, on our consideration of the Colorado Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Colorado Lottery's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Colorado Lottery's internal control over financial reporting and compliance.

FORVIS,LLP

Denver, Colorado
September 29, 2023

COLORADO LOTTERY
Management's Discussion and Analysis
June 30, 2023 and 2022

This discussion and analysis of the Colorado Lottery's financial performance provides an overview of financial activities for the Fiscal Years ended June 30, 2023 and 2022. Please read it in conjunction with the Lottery's financial statements, which begin on page 30. These financial statements reflect only activities of the Colorado Lottery.

Games Offered by the Colorado Lottery

The Lottery offers a variety of ways to play with two different game types: scratch games and jackpot (draw) games. Scratch games consist of pre-printed tickets that may be purchased at various price points with multiple play styles at any Lottery retailer. When scratched, they provide instant knowledge if the ticket is a winner and can be cashed immediately at a retailer location if the amount of the winnings is \$599 or less or at Lottery offices if over \$599. Jackpot or draw games require a longer playing time with winners determined by the selection of a combination of numbers during each game's associated drawing. The Lottery currently offers six different jackpot games, with drawings held every day of the week. Like scratch, winning jackpot tickets may be cashed at the retailer if the amounts of the total winnings by ticket are \$599 or less. Tickets with prizes over \$599 must be redeemed at the Lottery offices. The Lottery also offers an instant add-on game to one of its jackpot games. The purchase gives players the opportunity to win a randomly assigned instant prize, providing the player the instant winning experience of scratch with the purchase of a jackpot ticket. With no draw involved and with prizes ranging from \$2 to \$500, winning tickets may be cashed instantly at the retailer.

Financial Highlights

The Colorado Lottery achieved another record-breaking year with overall ticket sales for Fiscal Year 2023 reaching nearly \$889.8 million, the highest in the Lottery's history. In comparison to the previous highest sales record of nearly \$826.9 million set in the previous fiscal year, sales increased by nearly \$62.9 million or 7.6 percent. Scratch and jackpot sales both contributed to this achievement, hitting all time record-breaking marks. Scratch sales set a new record high in the current fiscal year with sales reaching \$596.7 million, or nearly 1.1 percent higher than the previous record set in Fiscal Year 2022. Fiscal Year 2023 jackpot sales of nearly \$293.1 million markedly surpassed the previous record of nearly \$236.6 million set in Fiscal Year 2022, with an increase of \$56.5 million, or nearly 23.9 percent over that fiscal year.

COLORADO LOTTERY

Management's Discussion and Analysis

June 30, 2023 and 2022

Funds distributed or available for distribution from Fiscal Year 2023 sales were nearly \$195.3 million, another record-breaking mark in the Lottery's history. The previous record of \$180.3 million set in Fiscal Year 2022 dropped to the second highest mark. With an 8.3 percent increase in distributions from Fiscal Year 2022 to Fiscal Year 2023, distributions reached the Great Outdoors Colorado (GOCO) proceeds cap of \$75.7 million and included an over \$21.9 million spill-over of funds. With a legislative change made to the distribution calculation of spill-over funds starting in Fiscal Year 2021, \$11.3 million went to the State Public School Capital Construction Assistance Fund, \$2.25 million, an increase of \$750 thousand from the previous year, to the Outdoor Equity Fund, and nearly \$4.2 million each to both the Wildlife Cash Fund and to the Parks and Outdoor Recreation Fund. This was the twenty-second year in a row the Lottery successfully reached the GOCO cap, ranging from \$46.5 million in Fiscal Year 2002 to the \$75.7 million in the current fiscal year.

Gross profit (Lottery product sales minus costs tied directly to those sales) as a percentage of sales slightly decreased by approximately 0.1 percent from nearly 25.2 percent to 25.1 percent in Fiscal Years 2022 and 2023, respectively. Costs tied directly to sales include prize expense, retailer commissions and bonuses, scratch ticket and the newly-contracted scratch ticket vendor fee costs charged by third-party vendor Scientific Games (SG) and vendor fees charged for the use of the jackpot gaming systems provided by the third-party vendor International Game Technology (IGT). A decrease of 0.5 percent as a percentage of sales in prize expense combined with decreases in retailer commissions and bonuses and jackpot vendor fees totaling 0.1 percent was more than offset by an increase of scratch ticket and scratch ticket vendor fees costs of 0.7 percent. This increase was the chief reason for the overall decrease in the gross profit percentage. Total prize expense as a percentage of sales for all Lottery products decreased from 65.2 percent to nearly 64.7 percent, while scratch ticket and scratch vendor fee costs as a percentage of sales increased from 0.4 percent to 1.1 percent in Fiscal Years 2022 and 2023, respectively.

Using this Annual Report

This annual report consists of a series of financial statements. The Statements of Net Position provide information about the Lottery's assets, liabilities and deferred inflows of resources and outflows of resources and reflect the Lottery's financial position as of June 30, 2023 and 2022. The Statements of Revenues, Expenses and Changes in Net Position report the activity of selling the Lottery products and the expenses related to such activity for the years ended June 30, 2023 and 2022. Finally, the Statements of Cash Flows outline the cash inflows and outflows related to the activity of selling the Lottery products for the years ended June 30, 2023 and 2022.

COLORADO LOTTERY
Management's Discussion and Analysis
June 30, 2023 and 2022

Statements of Net Position

The Statements of Net Position present a financial snapshot of the Lottery at June 30, 2023 and 2022. It presents the fiscal resources (assets) of the Lottery, the consumption of net assets that is applicable to a future reporting period (deferred outflows), the claims against those resources (liabilities), the acquisition of net assets that is applicable to a future reporting period (deferred inflows) and the residual available for future operations (net position). Assets and liabilities are classified by liquidity as either current or noncurrent.

Deferred outflows of resources are reported in a separate section following assets, with deferred inflows of resources reported in a separate section following liabilities. Net position is classified by the ways in which these assets may be used for future operations.

COLORADO LOTTERY
Management's Discussion and Analysis
June 30, 2023 and 2022

Condensed Statements of Net Position
June 30, 2023, 2022, and 2021

	2023	2022 (Restated)	2021*
Assets			
Current assets	\$ 108,560,487	\$ 112,711,549	\$ 98,292,452
Restricted assets	8,430,964	7,903,109	7,841,425
Capital assets	3,625,957	4,420,463	3,212,861
Total assets	\$ 120,617,408	\$ 125,035,121	\$ 109,346,738
Deferred Outflows of Resources			
Pensions	\$ 3,302,371	\$ 1,218,978	\$ 2,346,754
Other postemployment benefits	75,164	50,239	50,669
Total deferred outflows of resources	\$ 3,377,535	\$ 1,269,217	\$ 2,397,423
Liabilities			
Current liabilities	\$ 119,341,245	\$ 122,164,320	\$ 103,496,190
Long-term liabilities	3,187,096	4,048,404	2,659,411
Net pension liability	20,433,052	14,118,170	18,450,021
Net other postemployment benefits liability	519,451	567,129	650,065
Total liabilities	\$ 143,480,844	\$ 140,898,023	\$ 125,255,687
Deferred Inflows of Resources			
Pensions	\$ 579,041	\$ 5,686,351	\$ 5,730,759
Other postemployment benefits	297,881	327,542	337,191
Total deferred inflows of resources	\$ 876,922	\$ 6,013,893	\$ 6,067,950
Net Position			
Net Investment in Capital Assets	\$ 387,492	\$ 246,710	\$ 271,018
Restricted – Licensed Agent			
Recovery Reserve	968,398	917,360	833,351
Restricted – Operating Reserve	2,200,000	1,900,000	1,700,000
Unrestricted - Unrealized Gain			
(Loss) on Investments	(5,466,823)	(4,241,673)	386,768
Unrestricted - Net Pension Liability	(17,709,723)	(19,522,130)	(22,841,618)
Unrestricted - Net Other Postemployment Benefits Asset (Liability)	(742,167)	92,155	71,005
Total net position	\$ (20,362,823)	\$ (20,607,578)	\$ (19,579,476)

* Fiscal Year 2021 was not restated for the impact of Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96).

COLORADO LOTTERY
Management's Discussion and Analysis
June 30, 2023 and 2022

The Lottery's total assets at June 30, 2023 were \$120.6 million. Assets consisted primarily of cash and investments of \$72.9 million, including restricted balances of nearly \$3.2 million, receivables from Lottery retailers for the sales of Lottery products of \$38.2 million, prepaid prize expense with Multi-State Lottery Association (MUSL) of nearly \$5.3 million, scratch ticket inventory of over \$0.5 million, and net capital assets, which includes equipment, software, leasehold improvements, right-to-use lease assets and right-to-use subscription assets, of approximately \$3.6 million.

Comparable figures for total assets at June 30, 2022 were \$125.0 million, restated for the adoption of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*. This consisted primarily of cash and investments of \$79.4 million, including restricted balances of \$2.8 million, receivables from Lottery retailers for the sales of Lottery products of nearly \$34.3 million, prepaid prize expense with Multi-State Lottery Association (MUSL) of nearly \$5.1 million, scratch ticket inventory of nearly \$1.8 million, and net capital assets of over \$0.2 million, net lease assets of nearly \$3.9 million, and net subscription assets of over \$0.3 million.

Comparable figures at June 30, 2021 were over \$109.3 million in total assets. This principally included cash and investments of \$63.7 million, including restricted balances of over \$2.5 million, receivables from retailers of nearly \$34.5 million, prepaid prize expense with MUSL of \$5.3 million, scratch ticket inventory of \$2.6 million, and net capital assets of over \$3.2 million.

The Lottery's total assets decreased by \$4.4 million from Fiscal Year 2022 to Fiscal Year 2023. The decrease in total assets was primarily made up of the decreases in cash and investments of \$6.5 million, scratch ticket inventory of over \$1.2 million, right-to-use lease assets of \$0.9 million and right-to-use subscription assets of \$0.1 million, offset by increases in receivables from Lottery retailers of over \$3.9 million, prepaid prize expense with MUSL of nearly \$0.2 million, and capital assets of over \$0.1 million. The decrease in cash of nearly \$6.5 million can chiefly be attributed to the cash distribution payments made in Fiscal Year 2023 over and above the cash provided by operating activities and earned investment interest in the same fiscal year.

The Lottery's total assets increased by nearly \$15.7 million from Fiscal Year 2021 to Fiscal Year 2022. The increase in total assets was primarily made up of the increases in cash and investments of \$15.7 million and net investment in leases and subscription assets of over \$1.2 million, offset by decreases in receivables from Lottery retailers of nearly \$0.2 million, prepaid prize expense with MUSL of \$0.2 million, and scratch ticket inventory of over \$0.8 million. The increase in cash of nearly \$15.7 million can chiefly be attributed to the increase in net cash provided by operating activities tied to increased sales seen in Fiscal Year 2022, offset by an increase in the associated distribution of net proceeds and an increase in the loss in the fair market value of investments tied to the recording of GASB Statement No. 31.

COLORADO LOTTERY

Management's Discussion and Analysis

June 30, 2023 and 2022

The Lottery's total liabilities at June 30, 2023 totaled \$143.5 million, which consisted primarily of prize liability on all Lottery products of \$68.9 million, proceeds distributions due to recipients of over \$38.7 million, net pension liability of \$20.4 million recorded in accordance with GASB Statement No. 68, nearly \$6.5 million due to Lottery vendors, \$2.4 million due to retailers for bonuses, lease and subscription liabilities of over \$3.2 million recorded in accordance with GASB Statement No. 87 and 96, wages and benefits due to Lottery employees of nearly \$0.9 million, net other postemployment benefits (OPEB) liability of \$0.5 million recorded in accordance with GASB Statement No. 75, nearly \$0.9 million due to Lottery employees for annual and sick leave, and nearly \$1.0 million due to MUSL.

The Lottery's total liabilities at June 30, 2023 increased by nearly \$2.6 million from the previous fiscal year chiefly due to the increases of \$6.3 million in net pension liability, \$5.8 million due to Lottery vendors, and nearly \$0.6 million due to MUSL, offset by decreases of \$4.5 million in prize liability, over \$4.3 million in proceed distributions due to recipients, over \$0.8 million in lease liability and \$0.1 million in subscription liability, and nearly \$0.3 million due to retailers for bonuses. The increase in net pension liability was due to the liability adjustment recorded in accordance with GASB Statement No. 68. The decrease in prize liability in the current fiscal year was due to the purchase in Fiscal Year 2023 of the \$12.5 million Lotto jackpot annuity won in Fiscal Year 2022, partially offset by an increase in the scratch prize liability for prizes not yet claimed. Remaining liability categories showed much smaller changes from Fiscal Year 2022 to Fiscal Year 2023.

Comparable figures at June 30, 2022 totaled nearly \$140.9 million in total liabilities, restated for the implementation of GASB Statement No. 96. Liabilities consisted primarily of prize liability on all Lottery products of \$73.4 million, proceeds distributions due to recipients of nearly \$43.1 million, net pension liability of \$14.1 million recorded in accordance with GASB Statement No. 68, \$2.7 million due to retailers for bonuses, lease and subscription liabilities of nearly \$4.2 million recorded in accordance with GASB Statements No. 87 and 96, wages and benefits due to Lottery employees of \$0.9 million, net other postemployment benefits (OPEB) liability of nearly \$0.6 million recorded in accordance with GASB Statement No. 75, nearly \$0.7 million due to Lottery vendors, nearly \$0.8 million due to Lottery employees for annual and sick leave, and \$0.4 million due to MUSL.

Comparable figures at June 30, 2021 were nearly \$125.3 million in total liabilities, which consisted primarily of prize liability on all Lottery products of nearly \$56.5 million, proceeds distributions due to recipients of over \$39.4 million, net pension liability of nearly \$18.5 million, nearly \$3.9 million due to retailers for bonuses, over \$2.9 million in lease liability, wages and benefits due to Lottery employees of \$1.0 million, net OPEB liability of nearly \$0.7 million, \$1.0 million due to Lottery vendors, nearly \$0.8 million due to Lottery employees for annual and sick leave, and \$0.6 million due to MUSL.

COLORADO LOTTERY

Management's Discussion and Analysis

June 30, 2023 and 2022

The Lottery's total liabilities at June 30, 2022 increased by over \$15.6 million from the previous fiscal year chiefly due to the increase of over \$16.9 million in prize liability. The increase in prize liability in the current fiscal year was due to the increase in scratch game prize liability of nearly \$7.5 million, associated to the increase in scratch sales and accrued second chance prizes not yet awarded at year-end, and to the over \$9.4 million increase in jackpot game prize liability due to the \$12.5 million Lotto jackpot mentioned above. Other liability increases included \$3.6 million in proceeds distributions due to proceeds recipients and \$0.9 million in lease liability and \$0.3 million in subscription liability; offset by decreases of over \$4.3 million in net pension liability, nearly \$1.2 million in retailer bonuses, \$0.3 million due to Lottery vendors, and nearly \$0.2 million due to MUSL. Remaining liability categories showed much smaller changes from Fiscal Year 2021 to Fiscal Year 2022.

Components of the Lottery's net position are: 1) an amount to represent the Lottery's investment in depreciable capital assets, lease assets, and subscription assets net of related liabilities as required by the reporting model under GASB Statement No. 34 (see "depreciable capital assets" on the Statements of Net Position); 2) a Licensed Agent Recovery Reserve (bonding reserve) funded by retailers in accordance with Section 44-40-121, C.R.S. to cover any uncollectible receivable accounts; 3) an amount representing the funds held by the Lottery in an operating reserve to ensure the operation of the Lottery for the ensuing year in accordance with Section 44-40-111 (5)(a), C.R.S. (see "Cash and Investments – Operating Reserve" on the Statements of Net Position); 4) unrestricted, unrealized gain/loss on investments, which represents an adjustment made by the Lottery to reflect its share of unrealized gains or losses on investments held by the State Treasurer; 5) unrestricted, net pension liability, which represents the Lottery's share of the State's net pension liability as calculated by PERA; and 6) unrestricted, net OPEB liability, which represents the Lottery's share of the State's net liability for the Health Care Trust Fund as calculated by PERA.

The change in net position from June 30, 2022 to June 30, 2023 consisted of an increase in investment in depreciable capital assets of over \$0.1 million due the addition of depreciable capital assets of \$179 thousand, offset by a total depreciation expense of these assets of \$38 thousand recognized in Fiscal Year 2023, an increase in the bonding reserve from \$917 thousand to \$968 thousand, an increase of \$0.3 million in the operating reserve, an unrealized loss on investments of \$1.2 million resulting from a net increase in the unrealized loss on State Treasury investments year over year, a decrease in net pension liability and related deferrals of \$1.8 million, and an increase in the net OPEB liability of \$0.8 million from a previous year net OPEB asset; all resulting in a total net increase in net position of \$0.2 million.

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Following is a schedule of net position for Fiscal Years 2023 and 2022:

	<u>2023</u>	<u>2022</u>	<u>Change</u>
Net Investment in Capital Assets	\$ 387,492	\$ 246,710	\$ 140,782
Restricted - Licensed Agent			
Recovery Reserve	968,398	917,360	51,038
Restricted - Operating Reserve	2,200,000	1,900,000	300,000
Unrestricted - Unrealized Gain			
(Loss) on Investments	(5,466,823)	(4,241,673)	(1,225,150)
Unrestricted - Net Pension			
Liability	(17,709,723)	(19,522,130)	1,812,407
Unrestricted - Net Other Postemployment			
Benefits Asset (Liability)	<u>(742,167)</u>	<u>92,155</u>	<u>(834,322)</u>
Total net position	<u>\$ (20,362,823)</u>	<u>\$ (20,607,578)</u>	<u>\$ 244,755</u>

The change in net position from June 30, 2021 to June 30, 2022 consisted of a decrease in investment in depreciable capital assets of \$24 thousand due to a total depreciation expense of these assets of \$37 thousand recognized in Fiscal Year 2022, offset by current year additions of depreciable capital assets of nearly \$13 thousand, an increase in the bonding reserve from \$833 thousand to \$917 thousand, an increase of \$0.2 million in the operating reserve, an unrealized loss on investments of \$4.6 million resulting from a net decrease in the adjustments on State Treasury investments, a decrease in the net pension liability and related deferrals of \$3.3 million, and an increase in the net OPEB asset of \$21 thousand; all resulting in a total net decrease in net position of \$1.0 million.

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Following is a schedule of net position for Fiscal Years 2022 and 2021:

	<u>2022</u>	<u>2021</u>	<u>Change</u>
Net Investment in Capital Assets	\$ 246,710	\$ 271,018	\$ (24,308)
Restricted - Licensed Agent			
Recovery Reserve	917,360	833,351	84,009
Restricted - Operating Reserve	1,900,000	1,700,000	200,000
Unrestricted - Unrealized Gain			
(Loss) on Investments	(4,241,673)	386,768	(4,628,441)
Unrestricted - Net Pension			
Liability	(19,522,130)	(22,841,618)	3,319,488
Unrestricted - Net Other Postemployment			
Benefits Asset	<u>92,155</u>	<u>71,005</u>	<u>21,150</u>
Total net position	<u>\$ (20,607,578)</u>	<u>\$ (19,579,476)</u>	<u>\$ (1,028,102)</u>

Following is a schedule of net position excluding the effects of the reporting requirements of GASB 68 and GASB 75.

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Total Net Position	\$ (20,362,823)	\$ (20,607,578)	\$ (19,579,476)
Add back Unrestricted - Net			
Pension Liability	17,709,723	19,522,130	22,841,618
Add/Subtract Unrestricted - Net Other			
Postemployment Benefits (Asset) Liability	<u>742,167</u>	<u>(92,155)</u>	<u>(71,005)</u>
Net position excluding pension			
and OPEB effect	<u>\$ (1,910,933)</u>	<u>\$ (1,177,603)</u>	<u>\$ 3,191,137</u>

The Lottery's net position excluding the effects of GASB 68 and GASB 75 decreased by \$0.7 million from June 30, 2022 to June 30, 2023 and decreased by nearly \$4.4 million from June 30, 2021 to June 30, 2022. The decrease from June 30, 2022 to June 30, 2023 was mainly due to the \$1.2 million unrealized loss on investments, offset by increases in the operating reserve of \$0.3 million, of \$0.1 million in capital assets, and over \$50 thousand in the bonding reserve. The decrease from June 30, 2021 to June 30, 2022 was mainly due to the \$4.6 million unrealized loss on investments, offset by an increase in the operating reserve of \$0.2 million.

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Statements of Revenues, Expenses and Changes in Net Position

The statements of revenues, expenses and changes in net position present the financial activity of the Lottery over the fiscal year. The focus is on operating revenues and expenses that have a significant effect on the distributions paid to the proceeds recipients.

	2023	2022 (Restated)	2021*
Operating Revenues	\$ 889,778,449	\$ 826,879,453	\$ 794,932,274
Direct Operating Expenses	666,507,173	618,683,614	595,643,383
Gross Profit on Sale of Tickets	223,271,276	208,195,839	199,288,891
Other Operating Expenses			
Marketing and communications	14,837,054	14,680,192	14,627,090
Wages and benefits	8,966,115	5,933,674	2,075,212
Other operating expenses	5,984,602	4,882,156	7,489,484
Total Other Operating Expenses	29,787,771	25,496,022	24,191,786
Other Operating Revenue	540,025	206,803	141,509
Total Operating Income	194,023,530	182,906,620	175,238,614
Nonoperating Revenue (Expenses)			
Investment Income/Loss	1,507,472	(3,616,685)	(135,130)
Proceeds distributions	(195,286,247)	(180,318,037)	(169,352,134)
Total Nonoperating Revenue (Expenses)	(193,778,775)	(183,934,722)	(169,487,264)
Change in Net Position	244,755	(1,028,102)	5,751,350

* Fiscal Year 2021 was not restated for the impact of GASB 96.

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**Condensed Statements of Revenues, Expenses and
Changes in Net Position (Continued)**
For the Fiscal Years Ended June 30, 2023, 2022, and 2021

	2023	2022 Restated	2021*
Net Position, Beginning of Year	\$ (20,607,578)	\$ (19,579,476)	\$ (25,330,826)
Net Change in Net Position	<u>244,755</u>	<u>(1,028,102)</u>	<u>5,751,350</u>
Net Position, End of Year	<u>\$ (20,362,823)</u>	<u>\$ (20,607,578)</u>	<u>\$ (19,579,476)</u>

* Fiscal Year 2021 was not restated for the impact of GASB 96.

Sales Activities

Fiscal Year 2023 revenues from the sales of Lottery products were up from the previous fiscal year, setting the all-time record high for total Lottery sales in a fiscal year, including record highs for both scratch and jackpot product sales. Fiscal Year 2023 revenues from the sales of Lottery products ended at nearly \$889.8 million, surpassing the previous fiscal year and previous sales record by nearly \$62.9 million, representing a 7.6 percent increase in overall sales.

Fiscal Year 2022 revenues from the sales of Lottery products were up from Fiscal Year 2021, setting the all-time record high for Lottery sales at that time, including the continued record-setting pace of scratch product sales. Fiscal Year 2022 revenues from the sales of Lottery products ended at nearly \$826.9 million, surpassing the previous first place sales spot of Fiscal Year 2021 by over \$31.9 million, representing a 4.0 percent increase in overall sales.

Fiscal Year 2023 scratch sales hit an all-time high of \$596.7 million, which represented a \$6.4 million or 1.1 percent increase over Fiscal Year 2022 scratch sales of nearly \$590.3 million, despite stiff competition from the jackpot sales side. Over the last three fiscal years, scratch sales have increased by a total of \$106.0 million or 21.6 percent over Fiscal Year 2020 scratch sales. With the regularly scheduled launches of new scratch games, the increased availability of the number and variety of games, the enhanced partnership with the Lottery's scratch game vendor, Scientific Games, which provided additional sales tools to optimize the portfolio of games offered, and the efforts of the Lottery's retailer network to provide Lottery products throughout the entire fiscal year, scratch sales remained at its high levels. Fiscal Year 2023 saw players continuing to shift to the higher priced tickets with an increase in sales of \$13.5 million of \$10, \$20, \$50 and the newly introduced \$40 priced tickets over Fiscal Year 2022, offset by the overall drop in sales of the \$1, \$2, \$3, and \$5 priced tickets of nearly \$7.1 million from the previous fiscal year.

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Fiscal Year 2022 scratch sales hit an all-time high of \$590.3 million at the time, which represented a nearly \$17.3 million or 3.0 percent increase from Fiscal Year 2021 scratch sales of \$573.0 million, with continued scratch sales support from its players.

Fiscal Year 2023 combined jackpot sales ended at nearly \$293.1 million, a nearly \$56.5 million or impressive 23.9 percent increase over the previous fiscal year's jackpot sales of \$236.6 million. As stated earlier, Fiscal Year 2023 became the highest jackpot sales year in the history of the Lottery. The increase in jackpot game sales over the previous fiscal year can chiefly be attributed to the fact that three out of the top ten largest jackpots in the United States lottery jackpot history occurred in Fiscal Year 2023. The highest jackpot in U.S. history of \$2.04 billion, Powerball, was won in November 2022. This was combined with two Mega Millions jackpots won of \$1.35 billion and nearly \$1.34 billion. Fiscal Year 2023 Powerball jackpot sales ended at \$109.8 million, an increase of nearly \$26.7 or 32.1 percent over Fiscal Year 2022. Mega Millions jackpot sales ended at \$84.6 million, an increase of \$49.5 million or 141.0 percent increase over the previous fiscal year. In addition, Lucky For Life sales, with daily draws, ended at nearly \$23.2 million or a 13.7 percent increase over Fiscal Year 2022. Colorado's Lotto+ Plus game was lucky for its players with six jackpots won during the current fiscal year compared to only one in the previous fiscal year, but resulted in a drop in sales of \$22.7 million. Lotto+ Plus ended the current fiscal year with sales of nearly \$43.7 million compared to \$66.4 million in Fiscal Year 2022, with jackpots remaining at relatively lower levels. Jackpot sales of the remaining jackpot products (Cash 5, Cash 5 EZ Match and Pick 3) remained relatively flat in Fiscal Year 2023.

Fiscal Year 2022 combined jackpot sales ended at \$236.6 million, a nearly \$14.7 million or 6.6 percent increase over the previous fiscal year's jackpot sales of \$221.9 million. The increase in jackpot game sales over the previous fiscal year could chiefly be attributed to higher jackpots seen throughout the year, combined with changes to two of the games. Lotto+ Plus game launched in Fiscal Year 2020 saw its highest jackpot ever of \$25.0 million in January 2022, resulting in an increase of \$18.4 million in sales over the previous fiscal year. Fiscal Year 2022 sales of Powerball increased by \$16.2 million over Fiscal Year 2021 with the addition of a third draw each week and the launch of Double Play Powerball in August 2021. Finally, Lucky For Life went from a twice-weekly to a daily draw game in July 2021, increasing fiscal year sales from the previous one by nearly \$4.9 million. Mega Millions sales in the current fiscal year decreased by \$22.0 million from Fiscal Year 2021 with the drop in the average jackpot amounts seen during the fiscal year compared to the previous one. This was combined with a \$2.8 million drop in fiscal year sales of the remaining jackpot products (Cash 5, Cash 5 EZ Match, Pick 3) from Fiscal Year 2021 to Fiscal Year 2022.

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The following tables compare Lottery product sales between fiscal years.

Product Sales	2023	2022	Difference	Change
Scratch	\$ 596,720,571	\$ 590,288,982	\$ 6,431,589	1.1 %
Powerball	109,806,500	83,117,675	26,688,825	32.1
Lotto +	43,676,778	66,403,730	(22,726,952)	(34.2)
Mega Millions	84,610,742	35,103,706	49,507,036	141.0
Cash 5	14,200,307	14,093,529	106,778	0.8
Cash 5 EZ Match	2,062,342	2,163,798	(101,456)	(4.7)
Pick 3	15,520,461	15,315,871	204,590	1.3
Lucky For Life	23,180,748	20,392,162	2,788,586	13.7
Total	\$ 889,778,449	\$ 826,879,453	\$ 62,898,996	7.6

Product Sales	2022	2021	Difference	Change
Scratch	\$ 590,288,982	\$ 573,017,390	\$ 17,271,592	3.0 %
Powerball	83,117,675	66,889,633	16,228,042	24.3
Lotto +	66,403,730	47,970,863	18,432,867	38.4
Mega Millions	35,103,706	57,130,873	(22,027,167)	(38.6)
Cash 5	14,093,529	15,890,538	(1,797,009)	(11.3)
Cash 5 EZ Match	2,163,798	2,600,546	(436,748)	(16.8)
Pick 3	15,315,871	15,920,621	(604,750)	(3.8)
Lucky For Life	20,392,162	15,511,810	4,880,352	31.5
Total	\$ 826,879,453	\$ 794,932,274	\$ 31,947,179	4.0

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Other Operating Revenues

Other operating revenues for Fiscal Year 2023 totaled over \$0.5 million with an increase in the current fiscal year of over \$0.3 million over the previous one. Other operating revenues for the Fiscal Year ended June 30, 2022 totaled over \$0.2 million with a slight increase of \$65 thousand over the previous fiscal year. Other operating revenues mainly represent the net change in the bonding reserve mentioned earlier, amounts collected from Lottery retailers for annual licensing fees, liquidated damages charged to the jackpot gaming vendor for failure to satisfy or perform the duties and obligations as outlined in their contract between them and the Lottery, and restitution collected from individuals charged with crimes against the Lottery. An increase in liquidated damages collected of nearly \$0.3 million and an increase of \$37 thousand in restitution collected in Fiscal Year 2023 over the previous year chiefly made up the increase.

Investment Income (Loss)

Investment income/loss for the years ended June 30, 2023 and June 30, 2022 totaled \$1.5 million income and a \$3.6 million loss, respectively. An increase of \$1.8 million in nonoperating interest revenue earned on investments held by the Treasury was combined with a decrease in the recording of a \$1.2 million loss in Fiscal Year 2023 versus a \$4.6 million loss in Fiscal Year 2022 in the Lottery's share of the unrealized gains/losses on investments held by the Treasury tied to the GASB Statement No. 31 adjustment recording accounted for most of the over \$5.1 million increase in nonoperating revenues.

Total Revenues

Total revenues were over \$891.8 million and over \$823.4 million for the years ended June 30, 2023 and June 30, 2022, respectively. The major contributing factor to the nearly \$68.4 million increase in total revenues was primarily due to the nearly \$62.9 million or 7.6 percent increase in Lottery product sales, combined with the \$5.1 million increase in investment income in Fiscal Year 2023 over Fiscal Year 2022.

Major Expenses

The Lottery incurred \$666.5 million or 95.7 percent of its total expenses of \$696.3 million for Fiscal Year ended June 30, 2023 in direct support of the Lottery games. These game-related expenses include prize expense, retailer compensation, money spent to support scratch ticket sales including ticket costs, and compensation paid to the vendor who maintains and supports the jackpot gaming system. Of the \$666.5 million spent in Fiscal Year 2023 for the direct support of the Lottery games, nearly \$575.5 million was for prize expense associated with those games.

In comparison, nearly \$618.7 million, restated for the adoption of GASB Statement No. 96, or 96.0 percent of the Lottery's total expenses of nearly \$644.2 million for the Fiscal Year ended June 30, 2022 were game-related expenses. Of the nearly \$618.7 million spent in Fiscal Year 2022 for direct support of the Lottery games, nearly \$538.9 million was spent for prize expense associated with those games.

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Total prize expense in Fiscal Year 2023 increased nearly \$36.6 million from Fiscal Year 2022. This increase was not only tied to the overall increase in sales of over \$62.9 million recorded in Fiscal Year 2023, but other factors played a role in the final prize expense results. Prize expense as a percentage of sales for all products dropped from 65.2 percent in the prior fiscal year to 64.7 percent in the current fiscal year. Prize expense as a percentage of scratch sales, however, increased from 71.0 percent to 71.7 percent for Fiscal Year 2022 and Fiscal Year 2023, respectively. This increase was chiefly due to the continued shift by Lottery players purchasing scratch games at the higher price points, including the newly introduced \$40 price point ticket. Jackpot prize expense as a percentage of sales remained virtually the same at 50.5 percent and 50.4 percent for Fiscal Years 2022 and 2023, respectively. The overall decrease in the prize expense percentage in Fiscal Year 2023 compared to Fiscal Year 2022 was the result of a shift in the overall sales mix from scratch sales to jackpot sales, as the multi-state jackpots hit record levels in Fiscal Year 2023. Jackpot sales were 28.6 percent of total sales in Fiscal Year 2022, with a jump to 32.9 percent in Fiscal Year 2023. This change in product mix ultimately resulted in a \$5.3 million savings in prize expense in the current fiscal year and an overall drop in the prize expense as a percentage of sales.

Total prize expense in Fiscal Year 2022 increased nearly \$22.0 million from Fiscal Year 2021. This increase was not only directly tied to the overall increase in sales of over \$31.9 million recorded in Fiscal Year 2022 but was also due to the increase in the prize expense as a percentage of sales from 65.0 percent in the prior fiscal year to 65.2 percent for all products. Prize expense as a percentage of scratch sales, which experienced 71.4 percent of the total sales of Fiscal Year 2022, increased from 70.4 percent to 71.0 percent for Fiscal Year 2021 and Fiscal Year 2022, respectively. Overall jackpot prize expense as a percentage of jackpot sales decreased slightly from 51.1 percent in Fiscal Year 2021 to 50.5 percent in Fiscal Year 2022 chiefly due to an increase in unclaimed jackpot prizes written off in the current fiscal year.

As a percentage of sales, the overall game-related expenses other than prize expense increase to 10.2 percent in Fiscal Year 2023 from 9.7 percent in Fiscal Year 2022, restated for the adoption of GASB Statement No. 96. This increase was mainly due to the additional charges for the newly contracted scratch ticket services from Scientific Games, mentioned above.

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Following are tables comparing the game-related expenses between Fiscal Years 2023 and 2022:

Game-Related Expenses	2023	% of Sales	2022 (Restated)	% of Sales	Difference	Change in % of Sales
Prize Expense						
Scratch	\$ 427,887,002	71.7 %	\$ 419,363,787	71.0 %	\$ 8,523,215	0.7 %
Powerball	52,211,486	47.5	40,238,228	48.4	11,973,258	(0.9)
Lotto +	23,657,514	54.2	34,586,256	52.1	(10,928,742)	2.1
Mega Millions	41,144,313	48.6	16,740,562	47.7	24,403,751	0.9
Cash 5	7,545,425	53.1	7,373,617	52.3	171,808	0.8
Cash 5 EZ Match	1,191,871	57.8	1,237,397	57.2	(45,526)	0.6
Pick 3	7,686,814	49.5	7,179,580	46.9	507,234	2.6
Lucky For Life	14,148,696	61.0	12,169,903	59.7	1,978,793	1.3
Total prize expense	575,473,121	64.7	538,889,330	65.2	36,583,791	(0.5)
Retailer compensation						
Commissions	59,300,570	6.7	55,488,480	6.7	3,812,090	-
Bonuses	6,540,859	0.7	6,696,090	0.8	(155,231)	(0.1)
Ticket costs	9,418,764	1.1	2,988,167	0.4	6,430,597	0.7
Vendor fees	15,773,859	1.8	14,621,547	1.8	1,152,312	-
Total direct op. exp.	\$ 666,507,173	74.9 %	\$ 618,683,614	74.8 %	\$ 47,823,559	0.1 %

Following are tables comparing the game-related expenses between Fiscal Years 2022 and 2021:

Game-Related Expenses	2022 (Restated)	% of Sales	2021*	% of Sales	Difference	Change in % of Sales
Prize Expense						
Scratch	\$ 419,363,787	71.0 %	\$ 403,513,576	69.3 %	\$ 15,850,211	1.7 %
Powerball	40,238,228	48.4	32,474,262	46.3	7,763,966	2.1
Lotto +	34,586,256	52.1	24,961,400	57.8	9,624,856	(5.7)
Mega Millions	16,740,562	47.7	28,044,799	49.0	(11,304,237)	(1.3)
Cash 5	7,373,617	52.3	8,345,179	50.3	(971,562)	2.0
Cash 5 EZ Match	1,237,397	57.2	1,514,797	57.8	(277,400)	(0.6)
Pick 3	7,179,580	46.9	7,882,019	47.9	(702,439)	(1.0)
Lucky For Life	12,169,903	59.7	10,195,573	52.1	1,974,330	7.6
Total prize expense	538,889,330	65.2	516,931,605	64.4	21,957,725	0.8
Retailer compensation						
Commissions	55,488,480	6.7	53,423,990	6.7	2,064,490	-
Bonuses	6,696,090	0.8	7,677,313	0.9	(981,223)	(0.1)
Ticket costs	2,988,167	0.4	3,467,449	0.4	(479,282)	-
Vendor fees	14,621,547	1.8	14,143,026	1.8 ¹	478,521	-
Total direct op. exp.	\$ 618,683,614	74.8 %	\$ 595,643,383	74.2 %	\$ 23,040,231	0.6 %

* Fiscal Year 2021 was not restated for the impact of GASB 96

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Non game-related expenses totaled nearly \$29.8 million in Fiscal Year 2023 compared to \$25.5 million, restated for the implementation of GASB Statement No. 96, in Fiscal Year 2022, a \$4.3 million or over 16.8 percent increase. Non game-related expenses chiefly consist of expenses for marketing and communication, wages and benefits, payments made to state agencies including costs allocations paid to the Department of Revenue, office and warehouse lease expense and delivery expense of Lottery scratch tickets. Fiscal Year 2023 marketing and communication expenses were virtually the same at \$14.8 million compared to nearly \$14.7 million in Fiscal Year 2022. Increases in sponsorships, corporate advertising, problem gaming education, agency fees, and special events costs were offset by decreases in scratch and jackpot advertising and website management costs, with costs in other areas remaining the same fiscal year over fiscal year. Fiscal Year 2023 net wages and benefits expense of over \$8.9 million compared to \$5.9 million in Fiscal Year 2022 included a nearly \$1.0 million reduction adjustment of pension and OPEB expenses in Fiscal Year 2023, compared to an over \$3.3 million reduction adjustment in Fiscal Year 2022, and a nearly \$0.7 million increase in wages and associated benefits tied to the across-the-board three percent increase in wages employees received on July 1, 2022 and the increase in the number of employees as position vacancies were filled throughout the fiscal year.

The GASB adjustment is the income statement effect related to GASB 68 and 75 that is recorded against wages and benefits. Payments made to state agencies including indirect cost allocations paid to the Office of Information Technology (OIT) and Department of Revenue and audit costs paid to the Office of the State Auditor totaled nearly \$1.1 million in Fiscal Year 2023 compared to over \$1.1 million in Fiscal Year 2022. Office and warehouse lease costs, including for both the amortization of the right to use lease assets recognized for GASB Statement No. 87 and space rental charges excluded from GASB Statement No. 87 recognition were virtually the same at nearly \$1.5 million in both Fiscal Years 2023 and 2022. Scratch ticket delivery expense increased from \$0.8 million to \$1.2 million over the two fiscal years.

Distributions to the Proceeds Recipients

The Lottery's proceeds distribution for Fiscal Year 2023 totaled nearly \$195.3 million. This represented an increase of over \$14.9 million or 8.3 percent over the Fiscal Year 2022 proceeds amount of nearly \$180.3 million. The current year's proceeds amount became the highest amount in Lottery history. As a percentage of total revenue, excluding the effects of GASB 31, the Lottery returned nearly 21.9 percent in Fiscal Year 2023, an increase of nearly 0.1 percent from the nearly 21.8 percent in Fiscal Year 2022. Of these total proceeds, \$75.7 million, the cap amount, was allocated to the Great Outdoors Colorado Trust Fund, \$78.1 million to the Conservation Trust Fund and \$19.5 million to the Division of Parks and Outdoor Recreation per the distribution formula stated in Colorado Revised Statutes (C.R.S.) 44-40-111. According to the distribution changes introduced in House Bill 21-1318 as outlined earlier, the spill-over amount to be distributed is as follows for Fiscal Year 2023: \$2.25 million to the Outdoor Equity Fund, a total of over \$11.3 million to the School Assistance Fund (BEST), a grant fund program administered through the State Public School Capital Construction Assistance Fund, nearly \$4.2 million to the Wildlife Cash Fund, and nearly \$4.2 million to the Parks & Outdoor Recreation Fund.

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Capital Assets, Leases and Subscription Assets

The Lottery's total investment in capital assets, including depreciable capital assets, right-to-use leases and right-to-use subscription assets, at June 30, 2023, 2022, and 2021 amounted to \$3.6 million, \$4.4 million restated for the implementation of GASB Statement No. 96, and nearly \$3.2 million, respectively. The investment in depreciable capital assets include computer equipment, servers, drawing equipment, modular furniture, cameras, warehouse equipment and leasehold improvements net of accumulated depreciation. The \$0.8 million decrease in capital assets from Fiscal Year 2022 to Fiscal Year 2023 was due to the \$140 thousand addition of depreciable capital assets, offset by \$0.9 million in total depreciation and amortization of capital assets. Capital assets increased by \$1.2 million from Fiscal Year 2021 to Fiscal Year 2022 chiefly due to the addition of the Denver warehouse lease asset offset by the removal of the fully amortized Pueblo office lease asset, associated with the accounting for GASB 87.

Analysis of changes in capital assets is as follows (Note 3):

**Capital, Lease, and Subscription Assets as of
June 30, 2023, 2022 and 2021**

	2023	2022 (Restated)	2021*
Capital Assets, Leases, and Subscription Assets			
Equipment	\$ 1,632,973	\$ 1,575,068	\$ 1,610,408
Right-To-Use Asset - Equipment	2,484,541	2,484,541	2,484,541
Leasehold Improvements	185,939	64,711	64,711
Right-To-Use Asset - Buildings	2,882,851	2,882,851	1,528,994
Right-To-Use Subscription Asset	428,275	428,275	-
Less: Accumulated Depreciation and Amortization	(3,988,622)	(3,014,983)	(2,475,793)
Net capital assets, leases, and subscription assets	\$ 3,625,957	\$ 4,420,463	\$ 3,212,861

*Fiscal Year 2021 was not restated for the impact of GASB 96.

COLORADO LOTTERY
Management's Discussion and Analysis
June 30, 2023 and 2022

Budgetary Highlights

The Lottery's budget is determined by a variety of methods. The majority of the budget is set by the annual appropriations bill (the Long Bill), which determines budgets for every agency within the State. Many of the appropriation lines in the Long Bill are at the Department of Revenue (department) level, and the department has the discretion to allocate them among each agency within the department. The Long Bill and department level allocations are approved shortly before the start of each fiscal year. Agencies may also request a supplemental appropriation during the fiscal year to cover unexpected expenses (or a negative supplemental for less than expected expenses), as well as year-end transfers of spending authority, if needed. Two supplemental appropriations were approved in Fiscal Year 2023 to cover the increases in prize payments and vendor fees expenses necessitated by the increase in sales in Fiscal Year 2023.

The approved Lottery budget at the beginning of Fiscal Year 2023 was nearly \$718.0 million. The supplemental appropriation mentioned previously, along with several appropriation adjustments, increased the overall budget by over \$12.1 million. The Lottery budget at the end of Fiscal Year 2023 was \$730.1 million. Total expenditures and roll-forwards for Fiscal Year 2023 on a budget basis came to nearly \$698.1 million, resulting in under expended appropriations of \$32.0 million (see Budgetary Comparison on page 105).

Economic Outlook

The Colorado Lottery exists to maximize proceeds for its beneficiaries. It is the only lottery in the world whose proceeds almost exclusively benefit outdoor conservation, over \$4 billion since its founding in 1983. On January 24, 2023, the Colorado Lottery celebrated 40 years of giving back to the people of the State of Colorado. Approximately 22 to 24 cents of every dollar spent on Colorado Lottery games is reinvested in the outdoor conservation of the State of Colorado. The focus in Fiscal Year 2024 is to continue to grow revenue to maximize Lottery proceeds for its beneficiaries and the people of Colorado. To help the Colorado Lottery achieve its goals in Fiscal Year 2024, an integrated and focused marketing plan that clearly lays out the strategies and tactics to be used has been created.

The overall sales goal for the Lottery in Fiscal Year 2024 is \$865.0 million, which represents a nearly 1.8 percent growth over the Fiscal Year 2023 target of \$850.0 million. Its product strategy is straightforward – **To develop, deploy and promote a variety of scratch and jackpot games that satisfy its core players, encourage less frequent and lapsed players to play more often and attract new players and keep them engaged with the Colorado Lottery.**

COLORADO LOTTERY

Management's Discussion and Analysis

June 30, 2023 and 2022

The Lottery's scratch games and multi-state and in-state jackpot games are distinct profit centers and play-types that drive the financial health of the Colorado Lottery. They each allow the Lottery to maximize revenue and proceeds for its beneficiaries. Currently, scratch games account for roughly 68.0 percent of its topline revenue while jackpot games make up approximately 32.0 percent. Jackpot games, with their lower payout percentages than scratch, generally contribute more to proceeds, while scratch games, due to their higher overall sales level, drive higher topline revenue. Both are critical to the ongoing success and growth of the Colorado Lottery. Its portfolios of scratch and jackpot games each receive a high level of support through product development, deployment, advertising, social media, events and promotions.

Fiscal Year 2023 was a challenging year for many state lotteries, with the Colorado Lottery being one of few lotteries whose scratch ticket sales surpassed Fiscal Year 2022 sales levels. The scratch games sales goal for Fiscal Year 2024 is \$621.0 million, which represents a 1.1 percent increase over the lottery's scratch goal of \$614.0 million in Fiscal Year 2023, and a 0.4 percent increase over actual performance in the current fiscal year. Despite potentially challenging economic conditions ahead, the Lottery expects sales to grow even more in Fiscal Year 2024. Launching and activating compelling games, full implementation of its enhanced partnership with Scientific Games known as Scientific Games Enhanced Partnership (SGEP) and the addition of new vending machines will be critical for its sales growth in Fiscal Year 2024. The lottery will continue to build on the success of launching new scratch games every six weeks, which supports optimum inventory and availability at retail and creates both predictability and excitement among its player base.

The jackpot games sales goal for Fiscal Year 2024 is \$244.0 million, which represents a 3.4 percent increase over the Fiscal Year 2023 jackpot goal of \$236.0 million. The multi-state games Powerball and Mega Millions have both had towering jackpots of over \$1 billion early in Fiscal Year 2024, helping the Lottery's jackpot sales get off to a great start. The Colorado Lottery's jackpot game portfolio will see an investment in enhancing its own in-state Colorado Lotto+ game adding a third draw day. Exploration of new jackpot games to grow sales and lessen dependence on multi-state draw games will be a key focus in Fiscal Year 2024, and the Lottery is prepared to support a major change to Mega Millions, including a possible increase to a \$5.00 price point from the current \$2.00/\$3.00 price points and the addition of individual state-level jackpots, which will likely occur in Fiscal Year 2025. The Lottery must also maintain sales of the biggest multi-state games and will look to do so by leveraging large jackpots through high jackpot "trigger" campaigns to remind players that the jackpots are getting big. The lottery is looking to add an entirely new in-state jackpot game to its product portfolio, likely in the fourth quarter of Fiscal Year 2024. It will also continue to drive increased purchase and consumer interest and to cross-sell and promote other jackpot games through their own high jackpot trigger campaigns that alert casual and lapsed players when the larger jackpots occur.

Fiscal Year 2024's continuing focus on lottery industry best practices and partnership with its vendors IGT and Scientific Games will bring continued innovation, discipline and strategic enhancements to its scratch and jackpot games, which will have a direct impact on sales.

COLORADO LOTTERY

Management's Discussion and Analysis

June 30, 2023 and 2022

The Colorado Lottery was one of a handful of lotteries that showed year over year revenue growth in the scratch category and many lotteries achieved record-breaking growth in the jackpot category, largely due to numerous \$1 billion+ jackpots for both Mega Millions and Powerball in Fiscal Year 2023. Overall, Fiscal Year 2024 will present significant opportunity for the Lottery to grow and potentially some challenges as well. Continued uncertainty on whether or not the U.S. economy will enter into a recession, rising interest rates and worries over inflation could present economic headwinds for many U.S. lotteries and may impact consumer discretionary spending on entertainment, such as the lottery. The Lottery also continues to face growing competition for share of wallet and voice, particularly from the numerous online sports betting platforms available to Colorado players. Pending unforeseen circumstances, the Lottery is confident in its ability to achieve its sales objectives for Fiscal Year 2024.

Contacting the Lottery's Financial Management

This management discussion and analysis report is designed to provide Colorado citizens, Colorado government officials, our players, retailers and other interested parties with a general overview of the Lottery's financial activity for Fiscal Year 2023 and to demonstrate the Lottery's accountability for the money generated from the sale of the Lottery products. If you have questions about this report or need additional information, contact Nancy Bartosz, the Colorado Lottery's Controller, 225 North Main Street, Pueblo, Colorado 81003.

COLORADO LOTTERY
Statements of Net Position
June 30, 2023 and 2022

	2023	2022 (Restated)
ASSETS		
Current Assets:		
Cash and Investments	\$ 69,749,278	\$ 76,597,460
Accounts Receivable, net of the allowance for doubtful accounts of \$168,864 in 2023 and \$128,870 in 2022	38,217,100	34,288,312
Consignment Inventory, at Cost	24,613	142,169
Warehouse Inventory, at Cost	508,756	1,619,109
Prepaid Expenses	60,740	64,499
Total Current Assets	108,560,487	112,711,549
Reserved and Restricted Assets:		
Cash and Investments - Operating Reserve	2,200,000	1,900,000
Cash and Investments - Licensed Agent Recovery		
Reserve Receipts	968,398	917,360
Prepaid Prize Expense with MUSL	5,262,566	5,085,749
Total Reserved and Restricted Assets	8,430,964	7,903,109
Capital Assets:		
Equipment	1,632,973	1,575,068
Right-To-Use Asset - Equipment	2,484,541	2,484,541
Leasehold Improvements	185,939	64,711
Right-To-Use Asset - Buildings	2,882,851	2,882,851
Subscription Asset	428,275	428,275
Less Accumulated Depreciation and Amortization	(3,988,622)	(3,014,983)
Total Capital Assets	3,625,957	4,420,463
TOTAL ASSETS	120,617,408	125,035,121
DEFERRED OUTFLOWS OF RESOURCES		
Pensions	3,302,371	1,218,978
Other Postemployment Benefits	75,164	50,239
TOTAL DEFERRED OUTFLOWS OF RESOURCES	3,377,535	1,269,217
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 123,994,943	\$ 126,304,338

COLORADO LOTTERY
Statements of Net Position
June 30, 2023 and 2022

	2023	2022 (Restated)
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 6,485,542	\$ 661,867
Prize Liability	68,908,973	73,428,579
Payable to MUSL	981,686	430,572
Accrued Annual and Sick Leave	17,880	11,304
Wages and Benefits	866,923	942,818
Retailer Bonus Liability	2,419,150	2,705,162
Lease Liability	810,697	801,266
Subscription Liability	107,265	106,791
Funds Available for Distribution	38,743,129	43,075,961
Total Current Liabilities	119,341,245	122,164,320
Long-Term Liabilities:		
Accrued Annual and Sick Leave	861,319	772,558
Expired Warrants Liability	5,274	10,150
Lease Liability	2,213,631	3,051,281
Subscription Liability	106,872	214,415
Net Pension Liability	20,433,052	14,118,170
Other Postemployment Benefits Liability	519,451	567,129
Total Long-Term Liabilities	24,139,599	18,733,703
TOTAL LIABILITIES	143,480,844	140,898,023
DEFERRED INFLOWS OF RESOURCES		
Pensions	579,041	5,686,351
Other Postemployment Benefits	297,881	327,542
TOTAL DEFERRED INFLOWS OF RESOURCES	876,922	6,013,893
NET POSITION (DEFICIT)		
Net Investment in Capital Assets	387,492	246,710
Restricted-Licensed Agent Recovery Reserve	968,398	917,360
Restricted-Operating Reserve	2,200,000	1,900,000
Unrestricted (deficit)	(23,918,713)	(23,671,648)
TOTAL NET POSITION (DEFICIT)	(20,362,823)	(20,607,578)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 123,994,943	\$ 126,304,338

COLORADO LOTTERY

Statements of Revenues, Expenses, and Changes in Fund Net Position

For the Years Ended June 30, 2023 and 2022

	2023	2022 (Restated)
OPERATING REVENUES		
Gross Ticket Sales	\$ 889,778,449	\$ 826,879,453
DIRECT OPERATING EXPENSES		
Prize Expense	575,473,121	538,889,330
Retailer Commissions and Bonuses	65,841,429	62,184,570
Cost of Tickets and Vendor Fees	25,192,623	17,609,714
Total Direct Operating Expenses	666,507,173	618,683,614
GROSS PROFIT ON SALE OF TICKETS	223,271,276	208,195,839
OTHER OPERATING EXPENSES		
Marketing and Communications	14,837,054	14,680,192
Administration Fees Paid to MUSL	119,620	90,879
Wages and Benefits	8,966,115	5,933,674
Professional Services	633,795	277,331
State Agencies Services	340,506	345,932
Department of Revenue Services	755,162	729,711
Travel	128,199	66,975
Equipment	109,365	152,897
Depreciation and Amortization	973,642	1,357,376
Space Rental	463,936	70,443
Lease Interest	35,121	42,187
Subscription Interest	1,169	1,641
Rents for Equipment	21,342	20,506
Motor Pool Leasing	354,999	273,200
Materials and Supplies	184,971	125,131
Telephone	82,019	101,661
Equipment Maintenance	113,532	148,569
Printing	75,500	67,924
Delivery Expense	1,214,614	774,505
Other	377,110	235,288
Total Other Operating Expenses	29,787,771	25,496,022
OTHER OPERATING REVENUE	540,025	206,803

COLORADO LOTTERY

Statements of Revenues, Expenses, and Changes in Fund Net Position

(Continued)

For the Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022 (Restated)</u>
TOTAL OPERATING INCOME	\$ 194,023,530	\$ 182,906,620
NONOPERATING REVENUES (EXPENSES)		
Investment Income (Loss)	1,507,472	(3,616,685)
Funds Distributed for Current Year	(156,543,118)	(137,242,076)
Funds Available for Distribution for Current Year	<u>(38,743,129)</u>	<u>(43,075,961)</u>
Total Nonoperating Expenses	<u>(193,778,775)</u>	<u>(183,934,722)</u>
CHANGE IN NET POSITION	<u>244,755</u>	<u>(1,028,102)</u>
NET POSITION, BEGINNING OF YEAR - RESTATED	(20,607,578)	(19,579,476)
Change in Net Position	<u>244,755</u>	<u>(1,028,102)</u>
NET POSITION, END OF YEAR	<u>\$ (20,362,823)</u>	<u>\$ (20,607,578)</u>

COLORADO LOTTERY
Statements of Cash Flows
For the Years Ended June 30, 2023 and 2022

	2023	2022 (Restated)
Cash Flows from Operating Activities		
Cash received from retailers	\$ 887,019,540	\$ 827,220,655
Cash paid in prizes	(579,471,989)	(522,125,973)
Cash paid in retailer commissions	(59,300,570)	(55,488,480)
Cash payments to suppliers	(38,729,011)	(34,975,844)
Cash payments to employees for services	(9,924,758)	(9,365,418)
Cash paid in retailer bonus	(6,828,037)	(7,865,414)
	<u>192,765,175</u>	<u>197,399,526</u>
Cash Flows from Noncapital Financing Activities		
Distribution of net proceeds	(199,619,079)	(176,685,267)
	<u>(199,619,079)</u>	<u>(176,685,267)</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition of capital assets	(179,133)	(12,707)
Principal paid on lease liability	(828,219)	(1,213,294)
Principal paid on subscription liability	(106,791)	(106,477)
Interest paid on lease liability	(35,399)	(45,777)
Interest paid on subscription liability	(1,169)	(1,641)
	<u>(1,150,711)</u>	<u>(1,379,896)</u>
Cash Flows from Investing Activities		
Interest received	2,732,621	1,011,756
Realized loss on investments	(1,225,150)	(4,628,441)
	<u>1,507,471</u>	<u>(3,616,685)</u>
Increase (Decrease) in Cash and Investments	(6,497,144)	15,717,678
Cash and Investments, Beginning of Year, (including \$2,817,360 and \$2,533,351 in restricted accounts for 2023 and 2022, respectively)	<u>79,414,820</u>	<u>63,697,142</u>
Cash and Investments, End of Year, (including \$3,168,398 and \$2,817,360 in restricted accounts for 2023 and 2022, respectively)	<u>\$ 72,917,676</u>	<u>\$ 79,414,820</u>

COLORADO LOTTERY
Statements of Cash Flows
(Continued)

For the Years Ended June 30, 2023 and 2022

	2023	2022 (Restated)
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 194,023,530	\$ 182,906,620
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and Amortization	973,642	1,357,376
Pension related deferred outflows of resources	(2,083,393)	1,127,776
Pension related deferred inflows of resources	(5,107,310)	(44,408)
Net pension liability	6,314,882	(4,331,851)
OPEB related deferred outflows of resources	(24,925)	430
OPEB related deferred inflows of resources	(29,661)	(9,649)
Net OPEB liability	(47,678)	(82,936)
Change in:		
Accounts Receivable	(3,928,790)	169,056
Warehouse and Consignment Inventory	1,227,909	830,708
Prepaid Expenses	3,759	14,810
Prepaid Prize Expense with MUSL	(176,817)	222,325
Liabilities (excluding funds available for distribution)	1,583,737	15,192,443
Interest expense in operating income	36,290	46,826
	\$ 192,765,175	\$ 197,399,526
Reconciliation of Cash and Investments		
Cash and investments	\$ 69,749,278	\$ 76,597,460
Restricted cash and investments- Licensed Agent		
Recovery Reserve	968,398	917,360
Restricted cash and investments- Operating Reserve	2,200,000	1,900,000
	\$ 72,917,676	\$ 79,414,820
Cash and Investments, End of Year	\$ 72,917,676	\$ 79,414,820

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COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Colorado Lottery (the Lottery) began operations April 30, 1982 under the provisions of Section 44-40-102. The Lottery operates under a commission and provides operation and service of lottery games as authorized by the statute. The Lottery's revenues are predominantly earned from the sale of lottery products, including scratch games and jackpot draw games including Lotto+ Plus, Powerball, Cash 5 with Cash 5 EZ Match, Mega Millions, Pick 3, and Lucky For Life.

The financial statements reflect activities of the Lottery, an enterprise fund of the State of Colorado, for the Fiscal Years ended June 30, 2023 and 2022. The Lottery is an agency of the State of Colorado. The financial statements are intended to present the financial position and results of operations and cash flows of only that portion of the State of Colorado that is attributable to the transactions of the Lottery in accordance with accounting principles generally accepted in the United States of America.

The accounting policies of the Lottery conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net position during the reporting period. Actual results could differ from those estimates.

Fund Accounting

Government resources are allocated to and accounted for in separate sub-entities called funds, based upon the purposes for which the resources are to be spent and the means by which spending activities are controlled. A fund is a fiscal and accounting entity with a self-balancing set of accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues and expenditures.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Enterprise Fund

The Lottery accounts for its operations as an enterprise fund. The intent of the State of Colorado Legislature is that the Lottery's costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The Lottery defines operating revenues as those earned as a direct result of the fund's principal ongoing operations, *i.e.*, the sale of lottery products. Operating expenses include expenses incurred in earning those revenues such as prize payments, the cost of tickets, vendor fees, retailer commissions and bonuses, administrative expenses and depreciation and amortization on capital assets and leases. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

Pensions

The Lottery participates in the State Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension fund administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position (FNP) and additions to/deductions from the FNP of the SDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Postemployment Benefits (OPEB)

The Lottery participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit OPEB fund administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position (FNP) and additions to/deductions from the FNP of the HCTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefits paid on behalf of health care participants are recognized when due and/or payable in accordance with the benefit terms. Investments are reported at fair value.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The Lottery accounts for funds using the accrual basis of accounting. Revenues from and prize expense for scratch ticket sales are recognized at the point of ticket pack activation. Revenues from and prize expense for Lotto+ Plus, Powerball, Cash 5, Cash 5 EZ Match, Mega Millions, Pick 3, and Lucky For Life ticket sales are recognized when the tickets are sold. Other operating expenses are recognized when they are incurred.

Budget

By October 24th of each year, the Department of Revenue Executive Director submits to the Governor's Office of State Planning and Budgeting a proposed legislative budget for the fiscal year commencing the following July 1. The legislative budget includes proposed expenditures and the means of financing them.

Public hearings are conducted by the Joint Budget Committee to obtain clarification and taxpayer comments. Prior to June 30, the budget is legally enacted through passage of a law referred to as the Long Bill.

During the fiscal year, the approved legislative budget may be modified due to roll-forward authorization, supplemental budget approval or line item transfer authorization. All modifications must be approved by the State Controller and the Office of State Planning and Budgeting and the Legislature.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consist of amounts due from retailers for activated scratch ticket packs and uncollected jackpot game sales. Billable accounts receivable consist of amounts due from retailers for settled scratch ticket packs and uncollected jackpot game sales. Billable accounts receivable is invoiced weekly and is electronically transferred from the retailers' accounts into the Lottery's account one week following the invoice date.

Allowance for doubtful accounts represents a provision for receivables that will probably not be collected in the future. Consideration of the economic climate, credit-worthiness of individual account debtors, bankruptcy of debtor, discontinuance of debtor's business, and failure of repeated attempts to collect and barring of collection by statute of limitations are factors used in considering when an account becomes uncollectible. The accrual of a loss contingency is required when a loss is probable and/or can be reasonably estimated.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

The Lottery uses the specific identification method to determine expected uncollectibles. Under the provisions of Section 44-40-121, C.R.S., licensed agent recovery reserve receipts are collected from the retailers to cover uncollectible accounts. The accounts receivable and the licensed agent recovery reserve are shown net of estimated uncollectible receivables of \$168,864 and \$128,870 as of June 30, 2023 and 2022, respectively.

Warehouse Inventory

Warehouse inventory represents unsold tickets in possession of the Lottery and is stated at cost, using the specific identification method.

Consignment Inventory

Inventory on consignment represents non-activated ticket inventory in the possession of retailers who act as agents of the Lottery. The retailer cannot sell a pack of tickets until the pack is activated by the retailer, which then enables the winning tickets to be cashed. The activation is therefore the point at which the transfer of ownership is recognized. Since the Lottery still owns non-activated tickets, the tickets are included in the inventory and reported on the Statements of Net Position. Consignment inventory is stated at cost using the specific identification method.

Supplies Inventory

The State of Colorado's threshold for recording supplies inventories is \$100,000 per location. The supplies inventory of the Lottery consistently falls below the \$100,000 threshold per location. Accordingly, no supplies inventory appears on the Statements of Net Position.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Prepaid Prize Expense

As part of the Lottery's agreement with the Multi-State Lottery Association (MUSL), for both the Powerball and Mega Millions games, a certain percentage of sales must be paid to MUSL, when required, to bring the set prize and grand prize reserves up to the reserve requirement amounts as determined by MUSL. During Fiscal Year 2023, there were no transfers made from the Powerball Set Prize Reserve to cover the payment of low-tier prizes. These transfers result in an increase to the game's prize expense, when made. Net transfers of \$27,972 from the Powerball Grand Prize Reserve to the Powerball Set Prize Reserve along with a refund of \$48,397 of excess reserves held by MUSL were made to meet the rebalanced reserve requirements of the Lottery. At fiscal year-end, a surplus of \$128,599 existed between the total set prize and grand prize reserve requirements of nearly \$2.7 million and the amount held by MUSL. During Fiscal Year 2022, there were no transfers made from the Powerball Set Prize Reserve to cover the payment of low-tier prizes. Net transfers of \$73,102 from the Powerball Grand Prize Reserve to the Powerball Set Prize Reserve along with a refund of \$36,396 of excess reserves held by MUSL were made to meet the rebalanced reserve requirements of the Lottery.

During Fiscal Year 2023, a total of \$38,006 was transferred from the Mega Millions Prize Reserve to cover the payment of low-tier prizes, increasing the game's prize expense. A total of \$263,220 was paid to MUSL during Fiscal Year 2023 to bring the reserve balance up to the reserve requirement as determined by MUSL. At fiscal year-end, there were no excess funds held between the total reserve requirement of over \$2.4 million and the amount held by MUSL. During Fiscal Year 2022, a total of \$181,659 was transferred from the Mega Millions Prize Reserve to cover the payment of low-tier prizes. A refund of \$4,271 representing excess reserves held by MUSL was also made. At June 30, 2022, a surplus of \$185,935 existed between the total reserve requirement of over \$2.0 million and the amount held by MUSL.

Capital, Lease, and Subscription Assets

Depreciable capital assets, which include internal use computer software, equipment, vehicles, and leasehold improvements, are stated at cost. The Lottery adheres to the State policy of capitalizing equipment only if the cost exceeds \$5,000 and has a useful life of more than one year. Depreciation for equipment and internal use computer software is computed on the straight-line method over estimated useful lives ranging from three to ten years. Depreciation for vehicles is computed on the straight-line method over an estimated useful life of five years. Leasehold improvements are depreciated over the greater of five years or the term of the lease. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and resulting gains or losses are recognized in current operations.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

The Lottery leases office and warehouse space at multiple locations and jackpot sign equipment. Under Governmental Accounting Standards Board Statement No. 87, *Leases* (GASB 87), the Lottery recognizes that leases are defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction and recognizes a lease liability and intangible right-to-use lease asset. At the time of the adoption of GASB 87, the Lottery's lease assets were measured at the amount of the initial measurement of the lease liabilities, plus any payments made to the lessor at or before the commencement of the lease terms and certain direct costs. As payments are made, the Lottery reduces the lease liabilities and recognizes an expense for interest on the liabilities. It also amortizes the lease assets in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying assets.

At each of its four claims centers, the Lottery uses checkwriter software as an integrated jackpot/online/scratch/scratch validation and check writing application provided by its online vendor IGT. Under Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96), the Lottery recognizes that IT subscriptions are financings and recognizes an intangible right to use asset at the commencement of the subscription term. At the time of the adoption of GASB 96, the Lottery measured the subscription asset at the present value of payments expected to be made during the subscription term through the end of the contract. As payments are made, the Lottery reduces the subscription liability, recognizes an expense for interest on the liability and amortizes the subscription asset in a systematic and rational manner over the shorter of the subscription term or the useful life of the underlying asset.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Deferred Outflows/Inflows of Resources

In addition to assets, the Statements of Net Position includes a separate section for deferred outflows of resources. This separate element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Lottery's deferred outflows of resources for Pensions and OPEB represents the amount of pension and health care trust fund contributions made to the State plans subsequent to the December 31, 2022 measurement date, the deferred variance in expected to actual investment earnings, the deferred experience gains and losses, changes in employer proportion and differences between contributions recognized and proportionate share of contributions and changes in assumptions.

In addition to liabilities, the Statements of Net Position include a separate section for deferred inflows of resources. This separate element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Lottery's deferred inflows of resources for Pensions and OPEB represents the change in the Lottery's "proportionate share" developed to distribute the aggregate plan liability and expense among all the employers' represented by the cost-sharing multiple-employer defined benefit pension plan in which the Lottery participates, the deferred experience gains and losses, and the change in pension and health care investments.

Accrued Wages and Benefits

At the end of each fiscal year, the State shifts the pay date for the month of June for employees paid on a monthly basis, deferring the date from the last working day of June to the first working day of July. For the Lottery, along with other payroll accruals, this created a liability for accrued wages and benefits at June 30, 2023 and 2022 of \$866,923 and \$942,818, respectively.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Prize Liability and Prize Expense

Under the provisions of Section 44-40-111 (9), C.R.S., the Lottery must pay no less than fifty percent (50%) of total ticket sales as prizes. The Lottery continued to meet this requirement with nearly 64.7% and 65.2% of ticket sales of all Lottery products paid as prizes in Fiscal Years 2023 and 2022, respectively. Additional prize expense and corresponding liability may be incurred as a result of market fluctuations in the cost of annuities used to pay various jackpots (see Note 11).

All scratch, jackpot games and special drawing prizes are accounted for using the accrual basis of accounting. Scratch prize liability and expense are recognized at the point of ticket pack activation. The liability and expense for jackpot game prizes are recognized at the point of retail sale and are adjusted as the jackpot game draws occur and actual prize liability is determined. The liability for special drawing prizes is accrued on the first day of sales of the associated game. Prize liability for all games is reduced as prizes are paid to winners. The net prize liability at June 30, 2023 and 2022 was \$68,908,973 and \$73,428,579, respectively.

Payments of scratch prize amounts of \$150 or less may be made at the Lottery or at the retail outlet; payment of scratch prize amounts of \$151 to \$599 may be made at the retailer level at the option of the retailer or at the Lottery. Scratch prizes of \$600 or more are paid by the Lottery. Retailer accounts are credited for any prize payments retailers make on a daily basis. Prizes may be claimed up to 180 days after game-end. After the final claim date, any unclaimed scratch prizes accrued as a liability will result in a decrease to prize expense and any prizes claimed in excess of the liability accrued will result in an increase to prize expense. Net unclaimed scratch prizes resulted in a decrease to prize expense of \$6,488,603 for Fiscal Year ended June 30, 2023 and \$8,267,284 for Fiscal Year ended June 30, 2022.

Payments of cumulative jackpot game prize amounts of \$150 or less on a single ticket may be made at the Lottery or at the retail outlet; payment of cumulative prize amounts of \$151 to \$599 on a single ticket may be made at the retailer level at the option of the retailer or at the Lottery. Payment of cumulative prize amounts of \$600 or more on a single ticket must be made at the Lottery. Retailer accounts are credited for any prize payments retailers make on a daily basis. Jackpot game prizes may be claimed up to 180 days after the date of the drawing. After the final claim date, unclaimed jackpot game prizes will result in a decrease to prize expense so long as the aggregate prize expense of all games exceeds or equals the statutory 50% of sales. In the event that the expiration of an unclaimed prize would result in the aggregate prize expense of all games to fall below the statutory 50% level, the unclaimed prize amount would remain in prize expense and be paid out to players as a guaranteed additional prize. Unclaimed jackpot game prizes resulted in a decrease to prize expense of \$6,193,234 for Fiscal Year ended 2023 and \$4,989,101 for Fiscal Year ended 2022.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Retailer Bonus Liability

As outlined in the Lottery Retailer Application, each licensee is entitled to receive a cashing bonus of one percent (1%) of each prize paid by the licensee up to and including \$599.99. In addition, a marketing performance bonus up to five-tenths of one percent (0.5%) of total product sales may be earned by licensees that meet the criteria set forth by the Lottery Director or their designee. In the event there is a residual from the accrual of the one percent (1%) cashing bonus and/or the five-tenths (0.5%) marketing bonus, the Director may provide additional compensation to licensees or may revert the excess amount thereby decreasing the bonus expense.

The cashing bonus is accrued as tickets are sold and paid as winning tickets are redeemed. The write off of the accrued cashing bonus liability tied to unclaimed prizes at the end of the 180-day claim period in Fiscal Years 2023 and 2022 is recorded as a reduction of bonus expense.

The marketing performance bonus is accrued monthly and paid to retailers in accordance with the criteria as set out in the fiscal year marketing performance plan as approved by the Director. The write off of any excess marketing performance bonus accrued is recorded as a reduction of bonus expense.

Licensed Agent Recovery Reserve

Under the provisions of Section 44-40-121, C.R.S., a Licensed Agent Recovery Reserve, established on January 1, 1988, is used to maintain surety bond receipts collected from Lottery retailers. Billing rates are established by the Executive Director of the Department of Revenue and are reviewed on an annual basis. Retailers have the option to obtain private surety bond coverage at a rate of \$2,000 surety coverage per outlet at their discretion. As of June 30, 2023 and June 30, 2022, the Lottery had reserved \$968,398 and \$917,360, respectively. The Lottery utilizes restricted net position before using unrestricted net position for bad debts.

Lottery Fund Net Position

In accordance with Section 44-40-111 (5)(a), C.R.S., the Lottery is required to reserve “sufficient monies, as of the end of the fiscal year, to ensure the operation of the Lottery for the ensuing fiscal year.” The moneys reserved by the lottery shall be held in cash and investments.

In June 2002, the Lottery Commission approved a balance in net position “equal to the net value of the Lottery’s capital assets.” As of June 30, 2023 and June 30, 2022, the Lottery had reported \$387,492 and \$246,710, respectively.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

In April 2005, the Lottery set up a separate operating reserve independent of the net operating reserve in the amount of \$1.7 million. The amount held in this operating reserve is reviewed annually and adjusted accordingly. The current annual reviews were completed in January 2023 and January 2022. The reserve increased to \$2.2 million in Fiscal Year 2023 from \$1.9 million in Fiscal Year 2022.

Equipment Expense

Included in “The Statement of Revenues, Expenses, and Changes in Fund Net Position” is an account titled equipment. This account reports the gain or loss on disposed assets, capital asset purchases under the capitalization threshold, software purchases under the capitalization threshold, and other miscellaneous equipment transactions that do not qualify for capitalization.

Compensated Leave

All permanent employees of the Lottery may accrue annual and sick leave based on length of service subject to certain limitations on the amount that will be paid upon termination. Annual leave is paid out upon any termination of employment, while sick leave is paid out at 25 percent of accrued amount only to employees who are retiring. In addition, for employees who are classified as non-exempt from overtime pay and have accumulated overtime hours, pay must be taken as compensatory time or paid out to the employees.

Promotional Activity

The Lottery engages in three types of promotional activities in an attempt to enhance sales, to increase player awareness and to increase the player base: special promotions and drawings, direct giveaways, and buy x-get-y. The number and amount of promotional activities can and do vary year over year due to such factors as budget availability, retailer and special events participation, and new product introductions. Specific promotional tickets/cash/prizes are distributed/awarded to players through special promotions and drawings and can be redeemed/claimed at any lottery office. Specific promotional tickets/cash/prizes with a total value of \$112,221 and \$38,325 were awarded in Fiscal Years ended June 30, 2023 and June 30, 2022, respectively. These costs were included in Marketing and Communications expense in the statements of revenues, expenses and changes in fund net position.

Scratch and jackpot game tickets for specific games are given away as a more direct approach to introduce players to lottery games. During the Fiscal Years ended June 30, 2023 and June 30, 2022, scratch and jackpot tickets with a total face value of \$106,665 and \$94,646, respectively, were given away.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

For the “buy x-get-y” promotions, players are given the opportunity to receive a “free” jackpot ticket when a qualifying purchase is made, for instance buy five Lotto+ Plus tickets receive a free Pick 3 ticket. During the Fiscal Year ended June 30, 2023, free promotional tickets from a variety of jackpot games with a total face value of \$232,647 were given away with several different buy x qualifiers. During the Fiscal Year ended June 30, 2022, free promotional tickets from a variety of jackpot games with a total face value of \$163,136 were given away.

Scratch and jackpot game tickets and promotions are valued at cost. For the Fiscal Years ended June 30, 2023 and June 30, 2022, \$196,418 and \$160,640, respectively, were recorded as costs related to direct giveaways and free tickets. These costs were included in Marketing and Communications expense in the statements of revenues, expenses and changes in fund net position.

NOTE 2 – ADOPTION OF NEW STANDARD

Implementation of GASB Statement No. 96

As of July 1, 2021, the Lottery adopted GASB Statement No. 96, *Subscription Based Information Technology Arrangements* (GASB 96). The implementation of this standard establishes a single model for accounting based on the foundational principle that Subscription Based Information Technology Arrangements (SBITAs) are financings of the right to use subscription-based information technology (IT) software, alone or in combination with tangible capital assets. The standard requires recognition of certain subscription-based information technology assets and liabilities for SBITAs that were previously recognized as outflows of resources based on the payment provision of the contract. Under this Statement, a government recognizes the subscription liability at the commencement of the subscription term, when the agreement is placed into service.

In accordance with GASB 96, the Lottery adopted the Standard at July 1, 2021.

Beginning net position at July 1, 2021 remained the same with the retroactive adoption of the provisions of GASB Statement No. 96 as follows:

Net position at July 1, 2021, as previously reported	\$ (19,579,476)
Add: Right-To-Use subscription asset, under GASB Statement No. 96, at July 1, 2021	428,275
Add: Subscription liability under GASB Statement No. 96, at July 1, 2021	<u>(428,275)</u>
Net position at July 1, 2021, as restated	<u>\$ (19,579,476)</u>

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 2 – ADOPTION OF NEW STANDARD (CONTINUED)

The adoption of GASB 96 resulted in a restatement of the previously presented financial statement line item as shown for the year ended June 30, 2022.

Statement of Net Position	Previously Presented	Adjustment	As Restated
Subscription asset	\$ -	\$ 428,275	\$ 428,275
Accumulated depreciation and amortization	\$ (2,907,914)	\$ (107,069)	\$ (3,014,983)
Subscription liability - current	\$ -	\$ 106,791	\$ 106,791
Subscription liability - long term	\$ -	\$ 214,415	\$ 214,415

Statement of Revenues, Expenses and Change in Fund Net Position	Previously Presented	Adjustment	As Restated
Cost of tickets and vendor fees	\$ 17,718,424	\$ (108,710)	\$ 17,609,714
Depreciation and amortization	\$ 1,250,307	\$ 107,069	\$ 1,357,376
Subscription interest	\$ -	\$ 1,641	\$ 1,641

Statement of Cash Flows	Previously Presented	Adjustment	As Restated
Cash payment to suppliers	\$ (35,129,741)	\$ 107,069	\$ (35,022,672)
Principal paid on subscription liability	\$ -	\$ (106,477)	\$ 106,477
Interest paid on subscription liability	\$ -	\$ (1,641)	\$ (1,641)

NOTE 3 – CASH AND INVESTMENTS

Cash

Cash includes petty cash funds, imprest funds held at the Lottery claims centers, an imprest account, a depository account and cash on deposit with the State Treasurer. A detail of cash at June 30, 2023 and 2022 is as follows:

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Petty cash	\$ 1,200	\$ 1,550
Imprest account - Front Counters	78,000	78,000
Imprest account	195,000	195,000
Depository accounts	250,000	123,009
Cash on deposit with State Treasurer	<u>69,225,078</u>	<u>76,199,901</u>
 Total unrestricted cash and investments	 <u>69,749,278</u>	 <u>76,597,460</u>
 Restricted cash and investments - Licensed Agent		
Recovery Reserve Receipts on deposit with State Treasurer	968,398	917,360
Operating Reserve on deposit with State Treasurer	<u>2,200,000</u>	<u>1,900,000</u>
 Total restricted cash and investments	 <u>3,168,398</u>	 <u>2,817,360</u>
 Total cash and investments	 <u>\$ 72,917,676</u>	 <u>\$ 79,414,820</u>

Cash on Deposit with State Treasurer

Under the provisions of Section 44-40-111 (6), C.R.S., the State Treasurer shall invest the monies of the Lottery in excess of operating and prize payment expenses and all authorized transfers. Interest or any other return on investments is paid to the Lottery Fund account on a monthly basis. Actual interest payments are determined by the State Treasurer. The actual allocated interest rate for Fiscal Years 2023 and 2022 was 2.79% and 1.12%, respectively.

In addition, the State Treasurer pools these deposits and invests them in securities approved by Section 24-75-601.1, C.R.S. The State Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited in the Treasury are invested until the cash is needed. As of June 30, 2023, the Lottery had cash on deposit with the State Treasurer of \$72,393,476, which represented approximately 0.35 percent of the total \$18,810.9 million fair value of deposits in the State Treasurer's Pool (Pool). As of June 30, 2023, the Pool's resources included \$35.0 million of cash on hand and \$18,775.8 million of investments. As of June 30, 2022, the Pool's resources included nearly \$83.3 million of cash on hand and \$21,060.9 million of investments.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

On the basis of the Lottery's participation in the Pool, the Lottery reports as an increase or decrease in cash its share of the Treasurer's unrealized gains and losses on the Pool's underlying investments. The State Treasurer does not invest any of the Pool's resources in any external investment pool, and there is no assignment of income related to participation in the Pool. The unrealized gains/losses included in income reflect only the change in fair value for the fiscal year.

Additional information on investments of the State Treasurer's Pool may be obtained in the State's Annual Comprehensive Financial Report for the year ended June 30, 2023.

The Lottery reports its share of the Treasurer's unrealized gains and losses based on its participation in the State Treasurer's Pool only at fiscal year-end.

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Lottery's deposit policy for custodial credit risk requires compliance with the provisions of state law. State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the State of Colorado; bonds of any city, county, school district or special road district of the State of Colorado; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

The Lottery accounts are held in Public Deposit Protection Act (PDPA) qualified institutions, thus balances held in the Lottery's accounts in excess of \$250,000 per institution are secured through PDPA with guaranteed securities.

Statements of Cash Flows

The statements of cash flows are prepared under the direct method then adjusted for prize payments and commission and bonus payments to retailers, which are netted from cash received from retailers and applied against accounts receivable balances. For cash flow purposes, cash and investments include restricted cash and investments held by the State Treasurer in its cash and investment pool.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 4 – SCHEDULE OF CHANGES IN CAPITAL, LEASE, AND SUBSCRIPTION ASSETS

	July 1, 2022 (Restated)	Increases	Decreases	June 30, 2023
Capital assets being depreciated:				
Equipment and software	\$ 1,575,068	\$ 57,905	\$ -	\$ 1,632,973
Right-To-Use Equipment	2,484,541	-	-	2,484,541
Right-To-Use Buildings	2,882,851	-	-	2,882,851
Right-To-Use subscription asset	428,275	-	-	428,275
Leasehold improvements	64,711	121,228	-	185,939
Total historical costs	<u>7,435,446</u>	<u>179,133</u>	<u>-</u>	<u>7,614,579</u>
Less accumulated depreciation for equipment and software	(1,328,358)	(38,349)	-	(1,366,707)
Less accumulated depreciation for leasehold improvements	(64,711)	-	-	(64,711)
Less accumulated amortization for Right-To-Use Equipment	(993,816)	(496,908)	-	(1,490,724)
Less accumulated amortization for Right-To-Use Buildings	(521,029)	(331,313)	-	(852,342)
Less accumulated amortization for Right-To-Use subscription asset	(107,069)	(107,069)	-	(214,138)
Total accumulated depreciation and amortization	<u>(3,014,983)</u>	<u>(973,639)</u>	<u>-</u>	<u>(3,988,622)</u>
Total capital assets, lease and subscription assets	<u>\$ 4,420,463</u>	<u>\$ (794,506)</u>	<u>\$ -</u>	<u>\$ 3,625,957</u>

	July 1, 2021	Increases	Decreases	June 30, 2022 (Restated)
Capital assets being depreciated:				
Equipment and software	\$ 1,610,408	\$ 12,707	\$ (48,047)	\$ 1,575,068
Right-To-Use Equipment	2,484,541	-	-	2,484,541
Right-To-Use Buildings	1,528,994	2,123,996	(770,139)	2,882,851
Right-To-Use subscription asset	-	428,275	-	428,275
Leasehold improvements	64,711	-	-	64,711
Total historical costs	<u>5,688,654</u>	<u>2,564,978</u>	<u>(818,186)</u>	<u>7,435,446</u>
Less accumulated depreciation for equipment and software	(1,339,390)	(37,015)	48,047	(1,328,358)
Less accumulated depreciation for leasehold improvements	(64,711)	-	-	(64,711)
Less accumulated amortization for Right-To-Use Equipment	(496,908)	(496,908)	-	(993,816)
Less accumulated amortization for Right-To-Use Buildings	(574,784)	(716,384)	770,139	(521,029)
Less accumulated amortization for Right-To-Use subscription asset	-	(107,069)	-	(107,069)
Total accumulated depreciation and amortization	<u>(2,475,793)</u>	<u>(1,357,376)</u>	<u>818,186</u>	<u>(3,014,983)</u>
Total capital assets, lease and subscription assets	<u>\$ 3,212,861</u>	<u>\$ 1,207,602</u>	<u>\$ -</u>	<u>\$ 4,420,463</u>

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 5 – LONG-TERM DEBT

A schedule of Long-Term Debt (including the current portion) for the Fiscal Years ended June 30, 2023 and 2022 follows:

	<u>July 1, 2022</u> <u>(Restated)</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2023</u>	<u>June 30, 2023</u> <u>Current Portion</u>
Accrued Annual and Sick Leave	\$ 783,862	\$ 693,419	\$ (598,082)	\$ 879,199	\$ 17,880
Expired Warrants	10,150	-	(4,876)	5,274	-
Lease liability	3,852,547	-	(828,219)	3,024,328	810,697
Subscription liability	321,206	-	(107,069)	214,137	107,265
Total Long-Term Debt	<u>\$ 4,967,765</u>	<u>\$ 693,419</u>	<u>\$ (1,538,246)</u>	<u>\$ 4,122,938</u>	<u>\$ 935,842</u>

	<u>July 1, 2021</u> <u>(Restated)</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2022</u> <u>(Restated)</u>	<u>June 30, 2022</u> <u>Current Portion</u>
Accrued Annual and Sick Leave	\$ 790,016	\$ 571,023	\$ (577,177)	\$ 783,862	\$ 11,304
Expired Warrants	14,319	-	(4,169)	10,150	-
Lease liability	2,941,843	2,123,998	(1,213,294)	3,852,547	801,266
Subscription liability	427,683	-	(106,477)	321,206	106,791
Total Long-Term Debt	<u>\$ 4,173,861</u>	<u>\$ 2,695,021</u>	<u>\$ (1,901,117)</u>	<u>\$ 4,967,765</u>	<u>\$ 919,361</u>

The short-term portion of the above long-term debt appears in the final column. This represents the amount to be paid out in the next twelve months.

LEASES

The Lottery occupies office and warehouse space in Pueblo, Denver, Grand Junction, and Fort Collins. Rental payments are contingent upon the continuing availability of funds. The total lease liability for buildings at June 30, 2023 and 2022 is approximately \$2.0 million and \$2.4 million, respectively. The total lease liability for equipment is approximately \$1.0 million and \$1.5 million for the years ended June 30, 2023 and 2022, respectively. There are no significant residual payments excluded from the measurement of the lease liability. There are no outflows of resources for the payment of variable payments not included in the measurement of the lease liability. Specific lease information follows:

Pueblo

Office – The Lottery entered into an agreement with Midtown RLLL on October 18, 2016 with the lease expiring on June 30, 2022. The lease contains an option to renew for two additional five-year terms commencing on July 1, 2022, with no other provisions for extension or renewal. No extension agreement was reached prior to June 30, 2022, therefore, the lease agreement converted to a month to month agreement. A new lease agreement with Midtown RLLL begins on July 1, 2023.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 5 – LONG-TERM DEBT (CONTINUED)

Warehouse – The Lottery leases primary warehouse space from Santa Fe 250 LLC. Signed on November 19, 2018 by the State Controller’s Office, the Lottery executed Amendment #1 to the lease with Santa Fe 250, LLC. Becoming effective July 1, 2019, the amendment extended the term of the lease from July 1, 2019 through June 30, 2024 and established the monthly rent for the extended term.

Denver

Warehouse – The Lottery entered into a new lease agreement with BKM Valley BC 243 LLC (formerly, Valley Business Corp) effective on July 19, 2021 and expiring on June 30, 2026. The lease contains a holdover provision, whereby if the Lottery fails to vacate the premises upon the expiration or sooner termination of the lease, the Lottery will continue making monthly payments for the first three (3) months increasing to 125% of rate paid as of the date of expiration or sooner termination thereafter. BKM Valley BC 243 LLC and the Lottery both agree to give each other thirty (30) days written notice prior to the termination of a holdover tenancy period. The lease contains an option to renew for two additional five-year terms each, commencing on July 1, 2026.

Denver

The Lottery occupies space leased by the Department of Revenue and is responsible for reimbursing the Department of Revenue for lease payments.

Fort Collins

The Lottery shares space with the Department of Revenue for a claims center and pays their portion of the lease proportionate to the space they occupy.

Grand Junction

The Lottery occupies space in the Grand Junction State Services Building and is responsible for reimbursing the Capitol Complex Division of the Colorado Department of Personnel and Administration for lease payments.

Wireless Jackpot Signage

Effective June 21, 2016, the Lottery amended the IGT contract providing the jackpot gaming system to include the lease of 1,500 new in-store wireless jackpot signs capable of displaying information regarding jackpot amounts. Installation of the new signs is on a schedule agreed upon from time-to-time by the parties. The Lottery executed Option Letter #3 on June 7, 2019 and extended the IGT contract through July 12, 2025. Contract Amendment #7 was executed on June 7, 2019 to establish new prices and rates of the original IGT contract, which also includes the amount of the lease for in-store jackpot signage.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 5 – LONG-TERM DEBT (CONTINUED)

FISCAL YEAR	Pueblo Warehouse	
	Principal	Interest
2024	\$ 190,905	\$ 459
2025	-	-
2026	-	-
2027	-	-
2028	-	-
2029-2033	-	-
2034-2038	-	-

FISCAL YEAR	Denver Warehouse	
	Principal	Interest
2024	\$ 120,261	\$ 25,535
2025	126,781	23,830
2026	133,739	22,031
2027	140,303	20,138
2028	142,258	18,184
2029-2033	684,424	60,513
2034-2038	485,338	10,425

FISCAL YEAR	Wireless Jackpot Signage	
	Principal	Interest
2024	\$ 499,531	\$ 4,469
2025	500,777	1,574
2026	-	-
2027	-	-
2028	-	-
2029-2033	-	-
2034-2038	-	-

COLORADO LOTTERY
Notes to Financial Statements
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NOTE 5 – LONG-TERM DEBT (CONTINUED)

Subscription Based Information Technology Arrangements (SBITAs)

Effective January 17, 2014, the Lottery executed a contract with IGT to provide checkwriter software as an integrated jackpot/online/scratch validation and check writing application for use by the Lottery at claim centers for \$9,000 per month. The initial period of the contract terminated on June 30, 2021 unless sooner terminated or further extended. On June 7, 2019, the Lottery executed Option Letter #3 extending the IGT contract through July 12, 2025, including the use of the claims and payments software. The total subscription liability at June 30, 2023 and 2022 is \$0.2 million and \$0.3 million, respectively. There are no significant residual payments excluded from the measurement of the subscription liability. There are no outflows of resources for the payment of variable payments not included in the measurement of the liability.

Schedule of Future Subscription Payments

LOCATION	FY 2024		FY 2025	
	Principal	Interest	Principal	Interest
Claims & Payments Software	\$ 107,265	\$ 695	\$ 106,872	\$ 219

NOTE 6 – OTHER REVENUE

A schedule of other revenue for the Fiscal Years ended June 30, 2023 and 2022 follows:

	2023	2022
License fees	\$ 58,726	\$ 59,294
Fines and penalties	332,100	53,200
Assignment fees	-	300
Net licensed agent recovery reserve receipts	91,038	84,009
Other	58,161	10,000
Total	\$ 540,025	\$ 206,803

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 7 – DISTRIBUTION OF NET PROCEEDS

The net proceeds amount is equal to the Lottery’s change in net position plus or minus the changes in the components of net position as described earlier. In accordance with Section 33-60-104, C.R.S., distributions of net proceeds shall be made on a quarterly basis. The State Treasurer shall distribute net lottery proceeds as follows: forty percent (40%) to the Conservation Trust Fund, ten percent (10%) to the Division of Parks and Wildlife and all the remaining net lottery proceeds in trust to the State Board of the Great Outdoors Colorado Trust Fund up to the statutory limit. Under Section 33-60-104(2), C.R.S., the limit is \$35 million in 1992 dollars and is adjusted annually based on the consumer price index, which was calculated to be \$75.7 million for the year ended June 30, 2023. On June 21, 2021, House Bill 21-1318 concerning the creation and funding of the Outdoor Equity Grant Program was approved by Governor Jared Polis and established the distribution of the amounts exceeding the GOCO cap for Fiscal Year 2021 and beyond. The bill added Part 2 to article 9 of title 33, specifically Sections 33-9-201 through 33-9-206, C.R.S and Subsection (12) to Section 44-40-111, C.R.S, changing the distribution of any excess amounts over the statutory limit for Fiscal Year 2021 and beyond. Any excess over the limit to the extent available shall be transferred as follows for Fiscal Year 2023: the first \$2.25 million to the Outdoor Equity Fund, the next \$3 million to the State Public School Capital Construction Assistance Fund and any remaining as twenty-five percent (25%) to the Wildlife Cash Fund, twenty-five percent (25%) to the Parks and Outdoor Recreation Cash Fund, and fifty percent (50%) to the State Public School Capital Construction Assistance Fund. The amount transferred to the Outdoor Equity Grant Program, to the extent available, increases annually to \$3 million for Fiscal Year 2024, with the remaining distributed the same as in Fiscal Year 2022.

Income available for distribution at June 30:

	2023	2022
Income before distributions	\$ 195,531,002	\$ 179,289,935
Changes in Net Position:		
Change in licensed agent recovery reserve	(51,038)	(84,009)
Change in fair market value of investments	1,225,150	4,628,441
Change in operating reserve	(300,000)	(200,000)
Change in investment in capital assets	(140,782)	24,308
Change in unfunded pension and OPEB revenue/expense	(978,085)	(3,340,638)
Income available for distribution	195,286,247	180,318,037
Less distributions prior to year-end	(156,543,118)	(137,242,076)
Income available for distribution	\$ 38,743,129	\$ 43,075,961

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 7 – DISTRIBUTION OF NET PROCEEDS (CONTINUED)

	<u>Accrued at June 30, 2022</u>	<u>Proceed Distribution Expenses</u>	<u>Distributions Paid</u>	<u>Accrued at June 30, 2023</u>
Great Outdoors Colorado	\$ 4,496,728	\$ 75,706,639	\$ (80,203,367)	\$ -
Public School Capital				
Construction Assistance Fund	9,270,625	11,343,243	(9,585,545)	11,028,323
Conservation Trust Fund	17,230,384	78,114,498	(79,847,631)	15,497,251
Division of Parks and				
Outdoor Recreation	4,307,596	19,528,625	(19,961,908)	3,874,313
Outdoor Equity Fund	1,500,000	2,250,000	(3,750,000)	-
Wildlife Cash Fund	3,135,314	4,171,621	(3,135,314)	4,171,621
Parks & Outdoor Recreation Cash Fund	3,135,314	4,171,621	(3,135,314)	4,171,621
	<u>\$ 43,075,961</u>	<u>\$ 195,286,247</u>	<u>\$ (199,619,079)</u>	<u>\$ 38,743,129</u>

	<u>Accrued at June 30, 2021</u>	<u>Proceed Distribution Expenses</u>	<u>Distributions Paid</u>	<u>Accrued at June 30, 2022</u>
Great Outdoors Colorado	\$ 6,764,369	\$ 73,117,767	\$ (75,385,408)	\$ 4,496,728
Public School Capital				
Construction Assistance Fund	7,603,614	9,270,625	(7,603,614)	9,270,625
Conservation Trust Fund	15,777,278	72,127,214	(70,674,108)	17,230,384
Division of Parks and				
Outdoor Recreation	3,944,318	18,031,803	(17,668,525)	4,307,596
Outdoor Equity Fund	750,000	1,500,000	(750,000)	1,500,000
Wildlife Cash Fund	2,301,806	3,135,314	(2,301,806)	3,135,314
Parks & Outdoor Recreation Cash Fund	2,301,806	3,135,314	(2,301,806)	3,135,314
	<u>\$ 39,443,191</u>	<u>\$ 180,318,037</u>	<u>\$ (176,685,267)</u>	<u>\$ 43,075,961</u>

NOTE 8 – PENSION PLANS

Defined Benefit Pension Plan

Plan Description

Eligible employees of the Lottery are provided with pensions through the State Division Trust Fund (SDTF)—a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report (ACFR) that can be obtained at www.copera.org/investments/pera-financial-reports.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 8 – PENSION PLANS (CONTINUED)

Benefits Provided as of December 31, 2022

PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

The lifetime retirement benefit for all eligible retiring employees under the PERA Benefit Structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit
- The value of the retiring employee's member contribution account plus a 100 percent match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

In all cases the service retirement benefit is limited to 100 percent of highest average salary and also cannot exceed the maximum benefit allowed by federal Internal Revenue Code.

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether 5 years of service credit has been obtained and the benefit structure under which contributions were made.

Upon meeting certain criteria, benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments, referred to as annual increases in the C.R.S. Subject to the automatic adjustment provision (AAP) under C.R.S. § 24-51-413, eligible benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 will receive the maximum annual increase (AI) or AI cap of 1.00 percent unless adjusted by the AAP. Eligible benefit recipients under the PERA benefit structure who began membership on or after January 1, 2007, will receive the lesser of an annual increase of the 1.00 percent AI cap or the average increase of the Consumer Price Index for Urban Wage Earners and Clerical Workers for the prior calendar year, not to exceed a determined increase that would exhaust 10 percent of PERA's Annual Increase Reserve (AIR) for the SDTF. The AAP may raise or lower the aforementioned AI cap by up to 0.25 percent based on the parameters specified in C.R.S. § 24-51-413.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 8 – PENSION PLANS (CONTINUED)

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the lifetime retirement benefit formula(s) shown above considering a minimum 20 years of service credit, if deemed disabled.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

Contributions Provisions as of June 30, 2023

Eligible employees of the Lottery and the State are required to contribute to the SDTF at a rate set by Colorado statute. The contribution requirements for the SDTF are established under C.R.S. § 24-51-401, et seq. and § 24-51-413. For the period of July 1, 2022 through June 30, 2023 eligible employees are required to contribute 11.0 percent of their PERA-includable salary. Employer contribution rates for the period of July 1, 2022 through June 30, 2023 are summarized in the table below:

	Fiscal Year 2022		Fiscal Year 2023	
	CY2021 7/1/21 - 12/31/21	CY2022 1/1/22 - 6/30/22	CY2022 7/1/22 - 12/31/22	CY2023 1/1/23 - 6/30/23
Employer Contribution Rate	10.90%	10.90%	11.40%	11.40%
Amount of Employer Contribution Apportioned to the Health Care Trust Fund as specified in C.R.S. Section 24-51-208(1)(f)	-1.02%	-1.02%	-1.02%	-1.02%
Amount Apportioned to the SDTF	9.88%	9.88%	10.38%	10.38%
Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411*	5.00%	5.00%	5.00%	5.00%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., Section 24-51-411	5.00%	5.00%	5.00%	5.00%
Defined Contribution Supplement as specified in C.R.S. § 24-51-415	0.05%	0.10%	0.10%	0.17%
Total Employer Contribution Rate to the SDTF	19.93%	19.98%	20.48%	20.55%

*Rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 8 – PENSION PLANS (CONTINUED)

Employer contributions are recognized by the SDTF in the period in which the compensation becomes payable to the member and the Lottery is statutorily committed to pay the contributions to the SDTF. Employer contributions recognized by the SDTF from the Lottery were \$1,756,456 and \$1,408,428 for the Fiscal Years ended June 30, 2023 and 2022, respectively.

As specified in C.R.S. § 24-51-414, the State is required to contribute \$225 million (actual dollars) direct distribution each year to PERA starting on July 1, 2018. A portion of the direct distribution payment is allocated to the SDTF based on the proportionate amount of annual payroll of the SDTF to the total annual payroll of the SDTF, School Division Trust Fund, Judicial Division Trust Fund, and Denver Public Schools Division Trust Fund. House Bill (HB) 22-1029, instructed the State treasurer to issue an additional direct distribution to PERA in the amount of \$380 million (actual dollars), upon enactment. The July 1, 2023, payment is reduced by \$190 million (actual dollars) to \$35 million (actual dollars). The July 1, 2024, payment will not be reduced due to PERA's negative investment return in 2022. Senate Bill (SB) 23-056, enacted June 2, 2023, requires the State to make an additional direct distribution of approximately \$14.5 million (actual dollars), for a total of approximately \$49.5 million (actual dollars) to be contributed on July 1, 2023.

Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability for the SDTF was measured as of December 31, 2022, and the total pension liability (TPL) used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2021. Standard update procedures were used to roll-forward the total pension liability to December 31, 2022. The Lottery's proportion of the net pension liability was based on the Lottery's contributions to the SDTF for the calendar year 2022 relative to the total contributions of participating employers and the State as a non-employer contributing entity.

At June 30, 2023 and 2022, the Lottery reported a liability of \$20,433,052 and \$14,118,170, respectively, for its proportionate share of the net pension liability.

At December 31, 2022, the Lottery proportion was .1879320216 percent, which was a decrease of .0034997737 percent from its proportion of .1914317953 percent measured as of December 31, 2021.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 8 – PENSION PLANS (CONTINUED)

For the Fiscal Year ended June 30, 2023, the Lottery recognized pension expense of \$880,636 and for Fiscal Year ended June 30, 2022, the Lottery recognized pension credit of \$1,840,055. At June 30, 2023 and 2022, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Year ended June 30, 2023		Year ended June 30, 2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 273,954	\$ 96,064	\$ 19,641
Changes of assumptions or other inputs	-	-	503,366	-
Net difference between projected and actual earnings on pension plan investments	2,597,726	-	-	4,858,439
Changes in proportion and differences between contributions recognized and proportionate share of contributions	-	305,087	-	808,271
Contributions subsequent to the measurement date	704,645	-	619,548	-
Total	<u>\$ 3,302,371</u>	<u>\$ 579,041</u>	<u>\$ 1,218,978</u>	<u>\$ 5,686,351</u>

The amount of \$704,645 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the Fiscal Year ended June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	
2024	\$ (675,699)
2025	200,882
2026	958,171
2027	1,535,331
2028	-
Thereafter	-

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 8 – PENSION PLANS (CONTINUED)

Actuarial Assumptions

The TPL in the December 31, 2021 and December 31, 2020 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.30%
Real wage growth	0.70%
Wage inflation	3.00%
Salary increases, including wage inflation	3.30 – 10.90%
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.25%
Discount rate	7.25%
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07; and DPS benefit structure (compounded annually)	1.00%
PERA benefit structure hired after 12/31/06 ¹	Financed by the AIR

¹ Post-retirement benefit increases are provided by the AIR, accounted separately within each Division Trust Fund, and subject to moneys being available; therefore, liabilities related to increases for members of these benefit tiers can never exceed available assets.

The mortality tables described below are generational mortality tables developed on a benefit-weighted basis.

Pre-retirement mortality assumptions for members other than State Troopers were based upon the PubG-2010 Employee Table with generational projection using scale MP-2019.

Post-retirement non-disabled mortality assumptions for members other than State Troopers were based on the PubG-2010 Healthy Retiree Table, adjusted as follows:

- Males: 94% of the rates prior to age 80 and 90% of the rates for ages 80 and older, with generational projection using scale MP-2019.
- Females: 87% of the rates prior to age 80 and 107% of the rates for ages 80 and older, with generational projection using scale MP-2019.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 8 – PENSION PLANS (CONTINUED)

Disabled mortality assumptions for members other than State Troopers were based upon the PubNS-2010 Disabled Retiree Table using 99% of the rates for all ages with generational projection using scale MP-2019.

The actuarial assumptions used in the December 31, 2021 and December 31, 2020 valuation were based on the results of the 2020 experience analysis for the periods January 1, 2016 through December 31, 2019, were reviewed and adopted by the PERA Board at their November 20, 2020 meeting.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared at least every five years for PERA. The most recent analyses were outlined in the Experience Study report dated October 28, 2020.

Several factors are considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages and then adding expected inflation.

The PERA Board first adopted the 7.25 percent long-term expected rate of return as of November 18, 2016. Following an asset/liability study, the Board reaffirmed the assumed rate of return at the Board's November 15, 2019 meeting to be effective January 1, 2020. As of the most recent reaffirmation of the long-term rate of return, the target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the table as follows:

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return*
Global Equity	54.00%	5.60%
Fixed Income	23.00%	1.30%
Private Equity	8.50%	7.10%
Real Estate	8.50%	4.40%
Alternatives	6.00%	4.70%
Total	<u>100.00%</u>	

Note: In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected nominal rate of return assumption of 7.25%

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 8 – PENSION PLANS (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.25 percent for both the measurement period of December 31, 2022 and 2021. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.00%.
- Employee contributions were assumed to be made at the member contribution rates in effect for each year, including the scheduled increases in SB 18-200, requiring adjustments resulting from the 2018 and 2020 AAP assessments. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law for each year, including the scheduled increase in SB 18-200 and required adjustments resulting from the 2018 and 2020 AAP assessments. Employer contributions also include current and estimated future AED and SAED, until the actuarial value funding ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions reflect reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- As specified in law, the State, as a non-employer contributing entity, will provide an annual direct distribution of \$225 million (actual dollars), commencing July 1, 2018, that is proportioned between the State, School, Judicial, and DPS Division Trust Funds based upon the covered payroll of each Division. The annual direct distribution ceases when all Division Trust Funds are fully funded.
- HB 22-1029, effective upon enactment in 2022, required the State treasurer to issue, in addition to the regularly scheduled \$225 million (actual dollars) direct distribution, a warrant to PERA in the amount of \$380 million (actual dollars). The July 1, 2023, direct distribution is reduced by \$190 million (actual dollars) to \$35 million (actual dollars). The July 1, 2024, direct distribution will not be reduced from \$225 million (actual dollars) due to PERA's negative investment return in 2022.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 8 – PENSION PLANS (CONTINUED)

- Employer contributions and the amount of total service costs for future plan members were based upon a process to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial FNP, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. AIR transfers to the FNP and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the middle of the year.

Based on the above assumptions and methods, the SDTF’s FNP was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25 percent. There was no change in the discount rate from the prior measurement date.

Sensitivity of the Lottery’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.25 percent) or one percentage-point higher (8.25 percent) than the current rate:

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net pension liability	<u>\$ 26,121,279</u>	<u>\$ 20,433,052</u>	<u>\$ 15,648,175</u>

Pension Plan Fiduciary Net Position

Detailed information about the SDTF’s FNP is available in PERA’s ACFR which can be obtained at www.copera.org/investments/pera-financial-reports.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 9 – OTHER RETIREMENT PLANS

Defined Contribution Plan (PERA DC Plan)

Plan Description

Employees of the State of Colorado that were hired on or after January 1, 2006 and employees of certain community colleges that were hired on or after January 1, 2008, and certain classified employees of State Colleges and Universities hired on or after January 1, 2019, have the option to participate in the SDTF, a cost-sharing multiple-employer defined benefit pension plan, or the Defined Contribution Retirement Plan (PERA DC Plan).

The PERA DC Plan is an Internal Revenue Code Section 401(a) governmental profit-sharing defined contribution plan. Title 24, Article 51, Part 15 of the C.R.S., as amended, assigns the authority to establish Plan provisions to the PERA Board of Trustees. The DC Plan is also included in PERA’s ACFR as referred to above.

Funding Policy

All participating employees in the PERA DC Plan and the Lottery are required to contribute a percentage of the participating employees’ PERA-includable salary to the PERA DC Plan. The employee and employer contribution rates for the period July 1, 2022 through June 30, 2023 are summarized in the tables below:

	Fiscal Year 2022		Fiscal Year 2023	
	CY2021	CY2022	CY2022	CY2023
	7/1/21 - 12/31/21	1/1/22 - 6/30/22	7/1/22 - 12/31/22	1/1/23 - 6/30/23
Employee Contribution Rates	10.50%	10.50%	11.00%	11.00%
Employer Contribution Rates	10.15%	10.15%	10.15%	10.15%

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 9 – OTHER RETIREMENT PLANS (CONTINUED)

Additionally, the employers are required to contribute AED, SAED, and other statutory amounts, as follows:

	Fiscal Year 2022		Fiscal Year 2023	
	<u>CY2021</u>	<u>CY2022</u>	<u>CY2022</u>	<u>CY2023</u>
	7/1/21 - 12/31/21	1/1/22 - 6/30/22	7/1/22 - 12/31/22	1/1/23 - 6/30/23
Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411	5.00%	5.00%	5.00%	5.00%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., Section 24-51-411*	5.00%	5.00%	5.00%	5.00%
Automatic Adjustment Provision (AAP), as specified in C.R.S. § 24-51-413*	0.50%	0.50%	1.00%	1.00%
Defined Contribution statutory contribution as specified in C.R.S. § 24-51-1505*	0.25%	0.25%	0.25%	0.25%
Defined Contribution Supplement as specified in C.R.S. § 24-51-415	0.05%	0.10%	0.10%	0.17%
Total employer contribution rate to the SDTF*	10.80%	10.85%	11.35%	11.42%

*Rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

Contribution requirements are established under Title 24, Article 51, Section 1505 of the C.R.S., as amended. Participating employees of the PERA DC Plan are immediately vested in their own contributions and investment earnings and are immediately 50 percent vested in the amount of employer contributions made on their behalf. For each full year of participation, vesting of employer contributions increases by 10 percent. Forfeitures are used to pay expenses of the PERA DC Plan in accordance with PERA Rule 16.80 as adopted by the PERA Board of Trustees in accordance with Title 24, Article 51, Section 204 of the C.R.S. As a result, forfeitures do not reduce pension expense. Participating employees in the PERA DC Plan contributed \$11,539 and \$10,692, and the Lottery recognized pension expense of \$10,165 and \$10,231 for the PERA DC Plan for the Fiscal Years ended June 30, 2023 and 2022, respectively.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 9 – OTHER RETIREMENT PLANS (CONTINUED)

Voluntary Investment Program

Plan Description

Employees of the Lottery that are also members of the SDTF may voluntarily contribute to the Voluntary Investment Program, an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Title 24, Article 51, Part 14 of the C.R.S., as amended, assigns the authority to establish the Plan provisions to the PERA Board of Trustees. PERA issues a publicly available Annual Report which includes additional information on the Voluntary Investment Program. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy

The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. Employees are immediately vested in their own contributions and investment earnings. For the years ended June 30, 2023 and 2022, program members contributed \$61,489 and \$61,154, respectively.

Deferred Compensation Plan (PERAPlus 457 Plan)

Plan Description

Employees of the Lottery may voluntarily contribute to the Deferred Compensation Plan (PERAPlus 457 Plan), an Internal Revenue Code Section 457 deferred compensation plan administered by PERA. Title 24, Article 51, Part 16 of the C.R.S., as amended, assigns the authority to establish the Plan provisions to the PERA Board of Trustees. PERA issues a publicly available ACFR which includes additional information on the PERAPlus 457 Plan. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy

The PERAPlus 457 Plan is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1603 of the C.R.S., as amended. Members are immediately vested in their own contributions, employer contributions and investment earnings. For the years ended June 30, 2023 and 2022, program members contributed \$9,818 and \$12,200, respectively.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS

Defined Benefit Other Post Employment Benefit (OPEB) Plan

Plan Description

Eligible employees of the Lottery are provided with OPEB through the Health Care Trust Fund (HCTF)—a cost-sharing multiple-employer defined benefit OPEB plan administered by PERA. The HCTF is established under Title 24, Article 51, Part 12 of the Colorado Revised Statutes (C.R.S.), as amended, and sets forth a framework that grants authority to the PERA Board to contract, self-insure, and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of the premium subsidies. Colorado State law provisions may be amended by the Colorado General Assembly. PERA issues a publicly available annual comprehensive financial report (ACFR) that can be obtained at www.copera.org/investments/pera-financial-reports.

Benefits Provided

The HCTF provides a health care premium subsidy to eligible participating PERA benefit recipients and retirees who choose to enroll in one of the PERA health care plans, however, the subsidy is not available if only enrolled in the dental and/or vision plan(s). The health care premium subsidy is based upon the benefit structure under which the member retires and the member's years of service credit. For members who retire having service credit with employers in the Denver Public Schools (DPS) Division and one or more of the other four Divisions (State, School, Local Government and Judicial), the premium subsidy is allocated between the HCTF and the Denver Public Schools Health Care Trust Fund (DPS HCTF). The basis for the amount of the premium subsidy funded by each trust fund is the percentage of the member contribution account balance from each division as it relates to the total member contribution account balance from which the retirement benefit is paid.

C.R.S. § 24-51-1202 et seq. specifies the eligibility for enrollment in the health care plans offered by PERA and the amount of the premium subsidy. The law governing a benefit recipient's eligibility for the subsidy and the amount of the subsidy differs slightly depending under which benefit structure the benefits are calculated. All benefit recipients under the PERA benefit structure and all retirees under the DPS benefit structure are eligible for a premium subsidy, if enrolled in a health care plan under PERACare. Upon the death of a DPS benefit structure retiree, no further subsidy is paid.

Enrollment in the PERACare is voluntary and is available to benefit recipients and their eligible dependents, certain surviving spouses, and divorced spouses and guardians, among others. Eligible benefit recipients may enroll into the program upon retirement, upon the occurrence of certain life events, or on an annual basis during an open enrollment period.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

PERA Benefit Structure

The maximum service-based premium subsidy is \$230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; the maximum service-based subsidy is \$115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum service-based subsidy, in each case, is for benefit recipients with retirement benefits based on 20 or more years of service credit. There is a 5 percent reduction in the subsidy for each year less than 20. The benefit recipient pays the remaining portion of the premium to the extent the subsidy does not cover the entire amount.

For benefit recipients who have not participated in Social Security and who are not otherwise eligible for premium-free Medicare Part A for hospital-related services, C.R.S. § 24-51-1206(4) provides an additional subsidy. According to the statute, PERA cannot charge premiums to benefit recipients without Medicare Part A that are greater than premiums charged to benefit recipients with Part A for the same plan option, coverage level, and service credit. Currently, for each individual PERACare enrollee, the total premium for Medicare coverage is determined assuming plan participants have both Medicare Part A and Part B and the difference in premium cost is paid by the HCTF or the DPS HCTF on behalf of benefit recipients not covered by Medicare Part A.

Contributions

Pursuant to Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended, certain contributions are apportioned to the HCTF. PERA-affiliated employers of the State, School, Local Government, and Judicial Divisions are required to contribute at a rate of 1.02 percent of PERA-includable salary into the HCTF.

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the Lottery is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the Lottery for the Fiscal Years ended June 30, 2023 and 2022 were \$65,649 and \$61,637, respectively.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2023, the Lottery reported a liability of \$519,451 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2022, and the total OPEB liability (TOL) used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2021. Standard update procedures were used to roll-forward the TOL to December 31, 2022. The Lottery's proportion of the net OPEB liability was based on the Lottery's contributions to the HCTF for the calendar year 2022 relative to the total contributions of participating employers to the HCTF.

At December 31, 2022, the Lottery proportion was .0636208020 percent, which was a decrease of .0021481925 percent from its proportion of .0657689945 percent measured as of December 31, 2021.

For the year ended June 30, 2023, the Lottery recognized OPEB credit of \$36,616 and \$30,788, respectively. At June 30, 2023 and June 30, 2022, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Year ended June 30, 2023		Year ended June 30, 2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 67	\$ 125,621	\$ 864	\$ 134,473
Changes of assumptions or other inputs	8,349	57,331	11,742	30,763
Net difference between projected and actual earnings on OPEB plan investments	31,727	-	-	35,106
Changes in proportion and differences between contributions recognized and proportionate share of contributions	1,899	114,929	7,555	127,199
Contributions subsequent to the measurement date	33,122	-	30,078	-
Total	\$ 75,164	\$ 297,881	\$ 50,239	\$ 327,541

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The amount of \$33,122 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Fiscal Year Ending June 30:</u>		
2024	\$	(90,924)
2025		(81,969)
2026		(45,398)
2027		(14,423)
2028		(18,982)
2029		(4,142)
Thereafter		<u>-</u>
Total	\$	<u><u>(255,838)</u></u>

Actuarial Assumptions

The TOL in the December 31, 2021 and December 31, 2020 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.30%
Real wage growth	0.70%
Wage inflation	3.00%
Salary increases, including wage inflation	3.30%-10.90%
Long-term investment rate of return, net of OPEB	
plan investment expenses, including price inflation	7.25%
Discount rate	7.25%

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Health care cost trend rates

PERA benefit structure:

Service-based premium subsidy	0.00%
PERACare Medicare plans (December 31, 2021 actuarial valuation)	6.50% in 2022 gradually decreasing to 4.50% in 2030
PERACare Medicare plans (December 31, 2020 actuarial valuation)	4.50% in 2021, 6.00% in 2022 gradually decreasing to 4.50% in 2029
Medicare Part A premiums	3.75% in 2021 and 2022, gradually increasing to 4.50% in 2029

The TOL for the HCTF, as of the December 31, 2022, measurement date, was adjusted to reflect the disaffiliation, allowable under C.R.S. § 24-51-313, of Tri-County Health Department (TriCounty Health), effective December 31, 2022. As of the close of the 2022 fiscal year, no disaffiliation payment associated with Tri-County Health was received, and therefore no disaffiliation dollars were reflected in the FNP as of the December 31, 2022, measurement date.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Beginning January 1, 2022, the per capita health care costs are developed by plan option; based on 2022 premium rates for the UnitedHealthcare Medicare Advantage Prescription Drug (MAPD) PPO plan #1, the UnitedHealthcare MAPD PPO plan #2, and the Kaiser Permanente MAPD HMO plan. Actuarial morbidity factors are then applied to estimate individual retiree and spouse costs by age, gender, and health care cost trend. This approach applies for all members and is adjusted accordingly for those not eligible for premium-free Medicare Part A for the PERA benefit structure.

Age-Related Morbidity Assumptions

Participant Age	Annual Increase (Male)	Annual Increase (Female)
65-69	3.0%	1.5%
70	2.9%	1.6%
71	1.6%	1.4%
72	1.4%	1.5%
73	1.5%	1.6%
74	1.5%	1.5%
75	1.5%	1.4%
76	1.5%	1.5%
77	1.5%	1.5%
78	1.5%	1.6%
79	1.5%	1.5%
80	1.4%	1.5%
81 and older	0.0%	0.0%

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Sample Age	MAPD PPO #1 with Medicare Part A		MAPD PPO #2 with Medicare Part A		MAPD HMO (Kaiser) with Medicare Part A	
	Retiree/Spouse		Retiree/Spouse		Retiree/Spouse	
	Male	Female	Male	Female	Male	Female
65	\$1,704	\$1,450	\$583	\$496	\$1,923	\$1,634
70	\$1,976	\$1,561	\$676	\$534	\$2,229	\$1,761
75	\$2,128	\$1,681	\$728	\$575	\$2,401	\$1,896

Sample Age	MAPD PPO #1 without Medicare Part A		MAPD PPO #2 without Medicare Part A		MAPD HMO (Kaiser) without Medicare Part A	
	Retiree/Spouse		Retiree/Spouse		Retiree/Spouse	
	Male	Female	Male	Female	Male	Female
65	\$6,514	\$5,542	\$4,227	\$3,596	\$6,752	\$5,739
70	\$7,553	\$5,966	\$4,901	\$3,872	\$7,826	\$6,185
75	\$8,134	\$6,425	\$5,278	\$4,169	\$8,433	\$6,657

The 2022 Medicare Part A premium is \$499 (actual dollars) per month.

All costs are subject to the health care cost trend rates, as discussed below.

Health care cost trend rates reflect the change in per capita health costs over time due to factors such as medical inflation, utilization, plan design, and technology improvements. For the PERA benefit structure, health care cost trend rates are needed to project the future costs associated with providing benefits to those PERACare enrollees not eligible for premium-free Medicare Part A.

Health care cost trend rates for the PERA benefit structure are based on published annual health care inflation surveys in conjunction with actual plan experience (if credible), building block models and industry methods developed by health plan actuaries and administrators. In addition, projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare & Medicaid Services are referenced in the development of these rates. Effective December 31, 2021, the health care cost trend rates for Medicare Part A premiums were revised to reflect the current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The PERA benefit structure health care cost trend rates used to measure the total OPEB liability are summarized in the table below:

Year	PERACare Medicare Plans	Medicare Part A Premiums
2022	6.50%	3.75%
2023	6.25%	4.00%
2024	6.00%	4.00%
2025	5.75%	4.00%
2026	5.50%	4.25%
2027	5.25%	4.25%
2028	5.00%	4.25%
2029	4.75%	4.50%
2030+	4.50%	4.50%

In determining the additional liability for PERACare, enrollees who are age 65 or older and who are not eligible for premium-free Medicare Part A in the December 31, 2020 valuation, the following monthly costs/premiums (actual dollars) are assumed for 2020 for the PERA Benefit Structure:

Medicare Plan	Initial Costs for Members without Medicare Part A		
	Monthly Cost	Monthly Premium	Monthly Cost Adjusted to Age 65
Medicare Advantage/Self-Insured Rx	\$633	\$230	\$591
Kaiser Permanente Medicare Advantage HMO	596	199	562

The 2021 Medicare Part A premium is \$471 (actual dollars) per month.

All costs are subject to the health care cost trend rates, as discussed below.

Health care cost trend rates reflect the change in per capita health costs over time due to factors such as medical inflation, utilization, plan design, and technology improvements. For the PERA benefit structure, health care cost trend rates are needed to project the future costs associated with providing benefits to those PERACare enrollees not eligible for premium-free Medicare Part A.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Health care cost trend rates for the PERA benefit structure are based on published annual health care inflation surveys in conjunction with actual plan experience (if credible), building block models and industry methods developed by health plan actuaries and administrators. In addition, projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare & Medicaid Services are referenced in the development of these rates. Effective December 31, 2020, the health care cost trend rates for Medicare Part A premiums were revised to reflect the current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

The PERA benefit structure health care cost trend rates used to measure the total OPEB liability are summarized in the table below:

Year	PERACare Medicare Plans	Medicare Part A Premiums
2021	4.50%	3.75%
2022	6.00%	3.75%
2023	5.80%	4.00%
2024	5.60%	4.00%
2025	5.40%	4.00%
2026	5.10%	4.25%
2027	4.90%	4.25%
2028	4.70%	4.25%
2029+	4.50%	4.50%

Mortality assumptions used in the December 31, 2021 and 2020 valuation for the determination of the total pension liability for each of the Division Trust Funds as shown below, reflect generational mortality and were applied, as applicable, in the determination of the TOL for the HCTF, but developed using a headcount-weighted basis. Affiliated employers of the State, School, Local Government, and Judicial Divisions participate in the HCTF.

Pre-retirement mortality assumptions for the State and Local Government Divisions (members other than State Troopers) were based upon the PubG-2010 Employee Table with generational projection using scale MP-2019.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Post-retirement non-disabled mortality assumptions for the State and Local Government Divisions (members other than State Troopers) were based on the PubG-2010 Healthy Retiree Table, adjusted as follows:

- **Males:** 94% of the rates prior to age 80 and 90% of the rates for ages 80 and older, with generational projection using scale MP-2019.
- **Females:** 87% of the rates prior to age 80 and 107% of the rates for ages 80 and older, with generational projection using scale MP-2019.

Post-retirement non-disabled beneficiary mortality assumptions were based upon the Pub-2010 Contingent Survivor Table, adjusted as follows:

- Males: 97% of the rates for all ages, with generational projection using scale MP-2019.
- Females: 105% of the rates for all ages, with generational projection using scale MP-2019.

The following health care costs assumptions for the December 31, 2021 valuation were updated and used in the roll-forward calculation for the HCTF:

- Per capita health care costs in effect as of the December 31, 2021 valuation date for those PERACare enrollees under the PERA benefit structure who are expected to be age 65 and older and are not eligible for premium-free Medicare Part A benefits have been updated to reflect costs for the 2022 plan year.
- The December 31, 2021 valuation utilizes premium information as of January 1, 2022, as the initial per capita health care cost. As of that date, PERACare health benefits administration is performed by UnitedHealthcare. In that transition, the costs for the Medicare Advantage Option #2 decreased to a level that is lower than the maximum possible service-related subsidy as described in the plan provisions.
- The health care cost trend rates for Medicare Part A premiums were revised to reflect the then-current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

Actuarial assumptions pertaining to per capita health care costs and their related trend rates are analyzed and updated annually by PERA Board's actuary, as discussed above.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Effective for the December 31, 2022 measurement date, the timing of the retirement decrement was adjusted to middle-of-year within the valuation programming used to determine the TOL, reflecting a recommendation from the 2022 actuarial audit report, dated October 14, 2022, summarizing the results of the actuarial audit performed on the December 31, 2021 actuarial valuation.

The following health care costs assumptions for the December 31, 2020 valuation were updated and used in the roll-forward calculation for the Trust Fund:

- Initial per capita health care costs for those PERACare enrollees under the PERA benefit structure who are expected to attain age 65 and older ages and are not eligible for premium-free Medicare Part A benefits were updated to reflect the change in costs for the 2021 plan year.
- The health care cost trend rates for Medicare Part A premiums were revised to reflect the then-current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

Actuarial assumptions pertaining to per capita health care costs and their related trend rates are analyzed and updated annually by PERA Board's actuary, as discussed above.

The actuarial assumptions used in the December 31, 2021 and 2020 valuations were based on the results of the 2020 experience analysis for the periods January 1, 2016 through December 31, 2019, and were reviewed and adopted by the PERA Board at their November 20, 2020 meeting.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared at least every five years for PERA. The most recent analyses were outlined in Experience Study report dated October 28, 2020.

Several factors were considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

As of the most recent reaffirmation of the long-term rate of return, the target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the table as follows:

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
Global Equity	54.00%	5.60%
Fixed Income	23.00%	1.30%
Private Equity	8.50%	7.10%
Real Estate	8.50%	4.40%
Alternatives	6.00%	4.70%
Total	100.00%	

Note: In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25%.

Sensitivity of the Lottery's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability using the current health care cost trend rates applicable to the PERA benefit structure, as well as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rates:

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
Initial PERACare Medicare trend rate	5.25%	6.25%	7.25%
Ultimate PERACare Medicare trend rate	3.50%	4.50%	5.50%
Initial Medicare Part A trend rate	3.00%	4.00%	5.00%
Ultimate Medicare Part A trend rate	3.50%	4.50%	5.50%
Net OPEB Liability	\$504,748	\$519,451	\$535,449

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Discount Rate

The discount rate used to measure the total OPEB liability as of December 31, 2022 and 2021 was 7.25 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Updated health care cost trend rates for Medicare Part A premiums as of the December 31, 2022 and 2021 measurement date.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.00%.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- Estimated transfers of dollars into the HCTF representing a portion of purchase service agreements intended to cover the costs associated with OPEB benefits.
- Benefit payments and contributions were assumed to be made at the middle of the year.

Based on the above assumptions and methods, the HCTF's FNP was projected to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25 percent. There was no change in the discount rate from the prior measurement date.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Sensitivity of the Lottery’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the proportionate share of the net OPEB liability calculated using the discount rate of 7.25 percent, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
Net OPEB Liability	<u>\$ 504,748</u>	<u>\$ 519,451</u>	<u>\$ 535,449</u>

OPEB Plan Fiduciary Net Position

Detailed information about the HCTF’s fiduciary net position is available in PERA’s comprehensive annual financial report which can be obtained at www.copera.org/investments/pera-financial-reports.

NOTE 11 – CONTINGENCIES AND COMMITMENTS

Prize Annuities – The Lottery purchases annuity contracts in the name of individual jackpot prize winners. Although the annuity contracts are in the name of the individual winners, the Lottery retains title to the annuity contracts.

The Lottery remains liable for the payment of the guaranteed prizes in the event the insurance companies issuing the annuity contracts default. The following estimated prize payments for which annuity contracts have been purchased are due in varying amounts and are estimated to continue through September 22, 2079 based on updated life expectancy tables.

Specified prize payments	\$ 38,934,151
Lifetime prize payments	<u>33,924,000</u>
Total guaranteed prize payments	<u>\$ 72,858,151</u>

Prize Commitment – The Lottery also acts as a transfer agent for the single Powerball Jackpot Winner on October 10, 2007. These funds are held in trust at the MUSL in securities deemed appropriate by the Grand Prize Trust Agreement. The future value of this prize was \$12,217,000 as of June 30, 2023.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 11 – CONTINGENCIES AND COMMITMENTS (CONTINUED)

Self-insurance – The State of Colorado currently self-insures its agencies, officials and employees for the risks of losses to which they are exposed. These include general liability, motor vehicle liability, and workers’ compensation. The Lottery participates in the Risk Management Fund. State agency premiums are based on an assessment of risk exposure and historical experience. The State Risk Management Fund is a Special Purpose General Fund used for claims adjustment, investigation, defense and authorization for the settlement and payment of claims or judgments against the state. The State insures its property through private carriers and is self-insured against general liability risks for both its officials and employees. It is also self-funded for employee healthcare plans; however, the risk resides with the employees.

Colorado employers are liable for occupational injuries and diseases of their employees. Benefits are prescribed by the Worker’s Compensation Act of Colorado for medical expenses and loss of wages resulting from job-related injuries. The State utilizes the services of Broadspire Services, Inc. to administer its plan. The State reimburses Broadspire Services, Inc. for the current cost of claims paid and related administrative expenses.

Risk management liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors.

The limits of liability for which the State accepts responsibility pursuant to Section 24-10-114(1), C.R.S., are as follows:

Liability	Limits of Liability
General and automobile	Each person \$350,000 Each occurrence \$990,000

Before January 1, 1999, the Group Benefit Plans Fund provided an employer-paid short-term disability plan for all employees. On January 1, 1999, PERA began covering short-term disability claims for state employees eligible under its retirement plan. The Group Benefit Plans Fund continues to provide short-term disability coverage for employees not yet qualified for the retirement plan and secondary benefits for employees also covered under the PERA short-term disability plan.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 11 – CONTINGENCIES AND COMMITMENTS (CONTINUED)

The Group Benefit Plans short-term disability program provides an employee with 60 percent of their pay beginning after 30 days of disability or exhausting their sick leave balance, whichever is later. This benefit expires six months after the beginning of the disability. Although fully insured, the Group Benefit Plans disability program includes a risk-sharing feature that provides experience rating refunds calculated as earned premium less the aggregate of incurred claims, claim reserve, retention charge and refunds paid previously over the term of the contract. Refunds, when applicable, are paid annually.

Furniture and Equipment – The State of Colorado carries a \$5,000 deductible replacement policy on all state-owned furniture and equipment per Colorado Revised Statutes 24-30-1510.5(3)(a)(IV). For each loss incurred, the Lottery is responsible for the first \$5,000 of the deductible. Any loss in excess of \$5,000 is covered by the insurance carrier up to replacement cost.

Gaming Operations Commitments – The Lottery enters into long-term contracts with certain significant vendors related to providing jackpot data processing services and the design, production, and promotion of scratch tickets in support of the Lottery's gaming operations. The Lottery entered into a contract with IGT (formally GTECH) for jackpot data processing services, effective November 9, 2014 through June 30, 2021. On June 7, 2019, upon approval of the State Controller, the Lottery exercised its option to extend the contract beginning July 11, 2021 and ending July 12, 2025 and its option to increase the quantity of the services provided by IGT. Effective June 7, 2019, Amendment #7 was also signed modifying the maximum amount payable under the contract, which includes a fixed amount plus the percentage of sales covering the contract period through July 12, 2025. Payments for the jackpot data processing contract were \$15,400,664 for Fiscal Year ended June 30, 2023 and \$15,488,416 for Fiscal Year ended June 30, 2022.

For scratch ticket production, the Lottery entered into new contracts with its three scratch ticket vendors beginning July 1, 2017 and ending June 30, 2023. The contracts each contain an option to extend for continued performance for up to a maximum of two (2) two-year extensions. On June 29, 2022 the Lottery exercised its option with Scientific Games, one of the three scratch ticket vendors, to utilize the Scientific Games Enhanced Partnership (SGEP), modifying the business entity assignment, extending the contract expiration date to June 30, 2027, and increasing the contract maximum amount by \$67,800,000. Payments under these contracts were \$8,190,855 for the Fiscal Year ended June 30, 2023.

The Lottery was approved as a member of the MUSL on February 26, 2001 and thus entered into an agreement with MUSL on June 6, 2001 to become a member and participate in Powerball games. MUSL is an American non-profit, government-benefit association created to facilitate the operation of multi-jurisdictional lottery games. As a member, the Lottery agrees to abide by the terms of the Multi-State Agreement dated September 16, 1987 and to any amendments to that agreement duly made by the board. The Lottery will remain a member indefinitely. Pursuant to this agreement, the Lottery will make payments to MUSL for administrative fees, weekly prize expenses, promotional purchases, miscellaneous reimbursements and assessments and contributions to the prize reserves.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 11 – CONTINGENCIES AND COMMITMENTS (CONTINUED)

On November 15, 2012, the MUSL Powerball Group unanimously agreed to accept the recommendations of the Finance & Audit Committee and the Executive Committee and set the Prize Reserve Account (PRA) cap to \$80 million reduced from the previous \$100 million cap.

The total amount contributed by the Lottery to the Powerball prize reserves as of June 30, 2023 was \$2,821,629 and is based on a percentage of sales. This amount is shown as prepaid prize expense – MUSL on the Statements of Net Position. MUSL reserves the right to hold funds which do not exceed 110% of the required balance. If the actual balance in the reserves should exceed 110% of the required balance, MUSL will refund any funds in excess of the 110% threshold. As of June 30, 2023, there were excess funds of \$128,599 held by MUSL over Colorado's required reserves balance of \$2,693,030, with an allowed 10% surplus of \$269,303.

In 2009, the Powerball and Mega Millions governing bodies entered discussions regarding cross-selling the Powerball and Mega Millions games, whereby each state currently selling Mega Millions tickets would also sell Powerball tickets and those states currently selling Powerball tickets would also sell Mega Million tickets. On March 10, 2010, the Lottery commission voted to allow the Colorado Lottery to participate in the cross-selling of the Mega Millions game. The rule became effective as of April 30, 2010 and the first day of ticket sales was May 16, 2010. MUSL agreed to undertake the administrative functions associated with the Mega Millions game for the states currently participating in their Powerball game.

MUSL immediately began collecting a percentage of sales to fund the newly formed Mega Millions prize reserve fund. On March 22, 2013, the MUSL Mega Millions Game Group set the maximum prize reserve fund at \$45 million. With the change to the Mega Millions game on October 25, 2017 the Group set the maximum prize reserve balance at \$100 million. The Group also determined to set the additional prize reserve contribution at 2 percent of sales effective beginning with the drawing of October 31, 2017. Additional contributions continued until maximum balance amounts were reached. On March 31, 2023 MUSL calculated a new required reserve balance for the Lottery of \$2,440,938. The Lottery's balance in the reserve held by MUSL as of June 30, 2023 was \$2,440,934, with no surplus over Colorado's required reserve balance.

In addition, MUSL may deposit and hold any Unreserved Account Funds in trust for the benefit of member lotteries. These funds will not be comingled with any other funds held in trust and can be used only for authorized uses of the unreserved funds. MUSL held a nominal \$3 amount in the unreserved fund as of June 30, 2023.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 11 – CONTINGENCIES AND COMMITMENTS (CONTINUED)

Other Major Vendor Commitments – The Lottery entered into a contract with an advertising agency to provide advertising services to promote the Lottery’s products beginning on August 5, 2022 and expiring on June 30, 2023, the initial term. The Lottery has the option to extend the performance beyond the initial term for a period, or for successive periods, of one year or less through June 30, 2030. The initial term was for not to exceed \$14,187,250, with each successive fiscal year not to exceed \$15,477,000 for a total of \$122,526,250. On October 21, 2022, Amendment #1 was executed reducing the initial term amount from that point forward to \$11,232,619, with each successive fiscal year not to exceed \$13,700,000 for a total of \$107,132,620. Payments totaling \$4,114,118 were made under the first contract and \$9,595,218 were made under Amendment #1 for the Fiscal Year ended June 30, 2023.

Litigation – At times, various suits and claims may be pending against the Lottery. Although the outcome of such suits and claims cannot be predicted with certainty, the Lottery believes that the final outcome of these matters will not materially affect the financial statements of the Lottery.

The Colorado Lottery is one of several states due to receive restitution from two individuals, after they were convicted of various charges in connection with manipulating computer coding used to generate winning lottery numbers and then collecting the resulting jackpot prizes. The affected computer coding and host machines have since been replaced with independently certified code and hardware.

According to the first individual’s plea agreement and resulting court order, a total restitution of \$2,222,864, with interest as applied at Iowa’s standard statutory rate, will be paid to four states, with the Colorado Lottery’s share being \$1,137,980. The second plea agreement and resulting court order agrees to a total restitution of \$804,095, with interest as applied at Iowa’s standard statutory rate, to two states, with the Colorado Lottery’s share being \$568,990, joint and several with the first individual.

The Lottery’s attorneys have interpreted the court order as follows: \$568,990 (the first half of the \$1,137,980) will be paid to Colorado from either or both individuals. If the second individual pays the entire \$568,990 due Colorado, all of the first individual’s restitution payments will go to the other states until they have been fully paid. Only after all states are paid, would the first individual’s restitution payments be directed to Colorado. The Colorado Lottery’s total potential recovery from restitution is \$1,137,980.

The likelihood of collecting any of the restitution from either individual is unknown. The Lottery collected \$931 in Fiscal Year 2023 and has not recorded any estimated revenue from possible future payments. If the Lottery receives any future restitution payments, the payments will be recorded as revenue in the period the payments are received.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

NOTE 12 – TAX, SPENDING AND DEBT LIMITATIONS

In November 1992, the Colorado voters passed Section 20, Article X of the Colorado Constitution, commonly known as the Taxpayer’s Bill of Rights (TABOR). TABOR contains revenue, spending, tax and debt limitations that apply to the State of Colorado and all local governments. In the same general election, Article XXVII was passed creating the State Board of the Great Outdoors Colorado Trust Fund. The simultaneous passage of these two constitutional amendments raised questions as to whether there are irreconcilable conflicts between the two amendments.

The General Assembly determined in Section 24-77-102 (17) (b) (IX), C.R.S., that the net proceeds from the Lottery are excluded from the scope of “state fiscal year spending” for purposes of TABOR. The Colorado Supreme Court, in response to an interrogatory from the General Assembly, approved that determination.

TABOR is complex and subject to further legislative and judicial interpretation. The Lottery believes it is in compliance with both of these constitutional amendments.

NOTE 13 – RELATED PARTY TRANSACTIONS

The Lottery, as an agency of the State of Colorado, paid fees to other agencies of the State for auditing, legal and other services, and vehicle and office rent. The Lottery also pays fees to the Department of Revenue for indirect costs and the Governor’s Office of Information Technology for information and communications technology (ICT) services. Interagency charges were \$1,771,001 and \$1,510,526 for the Fiscal Years ended June 30, 2023 and 2022, respectively.

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COLORADO LOTTERY

Schedule of the Colorado Lottery's Proportionate Share of the Net Pension Liability

Colorado Public Employees' Retirement Association

	Last 10 Calendar Years*								
	2022	2021	2020	2019	2018	2017	2016	2015	2014
Lottery's proportion of the net pension liability	0.1879320216%	0.1914317953%	0.1945221248%	0.2121807562%	0.2234220529%	0.2290545580%	0.2238160821%	0.2398382458%	0.2511816995%
Lottery's proportionate share of the net pension liability	\$ 20,433,052	\$ 14,118,170	\$ 18,450,021	\$ 20,589,605	\$ 25,422,465	\$ 45,852,060	\$ 41,110,831	\$ 25,257,445	\$ 23,627,442
Lottery's covered payroll	\$ 6,425,900	\$ 6,218,822	\$ 6,494,631	\$ 6,867,065	\$ 6,862,079	\$ 6,774,739	\$ 6,440,000	\$ 6,745,555	\$ 6,885,135
Lottery's proportionate share of the net pension liability as a percentage of its covered payroll	317.98%	227.02%	284.08%	299.83%	370.48%	676.81%	638.37%	383.22%	354.03%
Plan fiduciary net position as a percentage of the total pension liability	60.63%	73.05%	65.34%	62.24%	55.11%	43.20%	42.60%	56.10%	59.80%

** Calendar Year 2014 was the 1st year of implementation, therefore only nine years are shown.

COLORADO LOTTERY
Schedule of the Colorado Lottery's Contributions
Colorado Public Employees' Retirement Association

	Last 10 Fiscal Years*								
	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 1,756,456	\$ 1,277,013	\$ 1,252,131	\$ 1,394,068	\$ 1,414,350	\$ 1,290,829	\$ 1,159,077	\$ 1,142,872	\$ 1,150,328
Contributions in relation to the contractually required contribution	<u>(1,756,456)</u>	<u>(1,277,013)</u>	<u>(1,252,131)</u>	<u>(1,394,068)</u>	<u>(1,414,350)</u>	<u>(1,290,829)</u>	<u>(1,159,077)</u>	<u>(1,142,872)</u>	<u>(1,150,328)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Lottery's covered payroll	\$ 6,779,600	\$ 6,203,739	\$ 6,344,872	\$ 6,444,337	\$ 7,191,084	\$ 6,821,281	\$ 6,594,985	\$ 6,520,365	\$ 6,917,645
Contributions as a percentage of covered payroll	25.91%	20.58%	19.73%	21.63%	19.67%	18.92%	17.58%	17.53%	16.63%

* The amounts presented for each fiscal year were determined as of 6/30.

* Fiscal year 2015 was the 1st year of implementation, therefore only nine years are shown.

COLORADO LOTTERY

**Schedule of the Colorado Lottery's Proportionate Share of the Net OPEB Liability
Colorado Public Employees' Retirement Association – Healthcare Trust Fund**

	Last 10 Calendar Years*					
	2022	2021	2020	2019	2018	2017
Lottery's proportion of the net OPEB liability	0.0636208020%	0.0657689945%	0.0684116693%	0.0738222796%	0.0790674504%	0.0820966264%
Lottery's proportionate share of the net OPEB liability	\$ 519,450	\$ 567,129	\$ 650,065	\$ 829,761	\$ 1,075,746	\$ 1,066,928
Lottery's covered payroll	\$ 6,425,900	\$ 6,218,822	\$ 6,494,631	\$ 6,867,065	\$ 6,862,079	\$ 6,774,739
Lottery's proportionate share of the net OPEB liability as a percentage of its covered payroll	8.08%	9.12%	10.01%	12.08%	15.68%	15.75%
Plan fiduciary net position as a percentage of the total OPEB liability	38.57%	39.40%	32.78%	24.49%	17.03%	17.53%

* Calendar Year 2017 was the 1st year of implementation, therefore only six years are shown.

COLORADO LOTTERY

Schedule of the Colorado Lottery's Contributions

Colorado Public Employees' Retirement Association – Healthcare Trust Fund

	Last 10 Fiscal Years*					
	2023	2022	2021	2020	2019	2018
Contractually required contribution	\$ 65,649	\$ 61,367	\$ 62,119	\$ 65,251	\$ 75,412	\$ 68,826
Contributions in relation to the contractually required contribution	(65,649)	(61,367)	(62,119)	(65,251)	(75,412)	(68,826)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Lottery's covered payroll	\$ 6,779,600	\$ 6,203,739	\$ 6,344,872	\$ 6,444,337	\$ 7,191,084	\$ 6,821,281
Contributions as a percentage of covered payroll	0.97%	0.99%	0.98%	1.01%	1.05%	1.01%

* The amounts presented for each fiscal year were determined as of 6/30.

* Fiscal year 2018 was the 1st year of implementation, therefore only six years are shown.

COLORADO LOTTERY
Notes to Required Supplementary Information
Years Ended June 30, 2023 and 2022

Changes of pension benefit terms and actuarial assumptions:

Change in assumptions or other input effective for the December 31, 2022 measurement period are as follows:

- House Bill (HB) 22-1029, effective upon enactment in 2022, required the State Treasurer to issue, in addition to the regularly schedule \$225 million (actual dollars) direct distribution, a warrant to PERA in the amount of \$380 million (actual dollars) with reductions to future direct distributions. The July 1, 2023 direct distribution will be reduced by \$190 million (actual dollars) to \$35 million (actual dollars). The July 1, 2024 direct distribution will not be reduced from \$225 million (actual dollars) due to a negative investment return in 2022.
- There were no changes made to the actuarial methods or assumptions.

Changes in assumptions or other input effective for the December 31, 2021 measurement period are as follows:

- The assumption used to value the automatic increase cap benefit provision was changed from 1.25 percent to 1.00 percent.

Changes in assumptions or other input effective for the December 31, 2020 measurement period are as follows:

- The price inflation assumption was lowered from 2.40 percent to 2.30 percent, and the wage inflation assumption was lowered from 3.50 percent to 3.00 percent.
- The real rate of investment return assumption was increased to 4.95 percent per year, net of investment expenses from 4.85 percent per year, net of investment expenses.
- Salary scale assumptions were revised to align with the revised economic assumptions and to more closely reflect actual experience.
- Rates of termination/withdrawal, retirement, and disability were revised to more closely reflect actual experience.
- The pre-retirement mortality assumption for the State Division (members other than State Troopers) was changed to the PubG-2010 Employee Table with generational projection using scale MP-2019.
- The pre-retirement mortality assumption for the Judicial Division was changed to the PubG-2010(A) Above Median Employee Table with generational projection using scale MP-2019.

COLORADO LOTTERY

Notes to Required Supplementary Information

Years Ended June 30, 2023 and 2022

- The post-retirement non-disabled mortality assumption for the State Division (Members other than State Troopers) was changed to the PubG-2010 Health Retiree Table, adjusted as follows:
 - Males: 94 percent of the rates prior to age 80 and 90 percent of the rates for ages 80 and older, with generational projection using scale MP-2019.
 - Females: 87 percent of the rates prior to age 80 and 107 percent of the rates for ages 80 and older, with generational projection using scale MP-2019.
- The post-retirement non-disabled mortality assumption for State Troopers was changed to the unadjusted PubS-2010 Healthy Retiree Table, with generational projection using scale MP-2019.
- The disabled mortality assumption for the Division Trust Funds (Members other than State Troopers) was changed to the PubNS-2010 Disabled Retiree Table with generational projection using scale MP-2019.
- The disability mortality assumption for State Troopers was changed to the unadjusted PubS-2010 Disabled Retiree Table with generational projection using scale MP-2019.
- The mortality tables described above are generational mortality tables on a benefit-weighted basis.

Changes in assumptions or other input effective for the December 31, 2019 measurement period are as follows:

- The assumption used to value the annual increase (AI) cap benefit provision was changed from 1.50% to 1.25%.

Changes in assumptions or other inputs effective for the December 31, 2018 measurement period are as follows:

- The assumed investment rate of return of 7.25% was used as the discount rate, rather than using the blended rate of 4.72%.

Changes in assumptions or other inputs effective for the December 31, 2017 measurement period are as follows:

- The discount rate was lowered from 5.26% to 4.72%.

COLORADO LOTTERY
Notes to Required Supplementary Information
Years Ended June 30, 2023 and 2022

Changes in assumptions or other inputs effective for the December 31, 2016 measurement period are as follows:

- The investment return assumption was lowered from 7.50% to 7.25%.
- The price inflation assumption was lowered from 2.80% to 2.40%.
- The real rate of investment return assumption increased from 4.70% per year, net of investment expenses, to 4.85% per year, net of investment expenses.
- The wage inflation assumption was lowered from 3.90% to 3.50%.
- The mortality tables were changed from RP-2000 Combined Mortality Table for Males and Females, as appropriate, with adjustments for mortality improvements based on a projection scale of Scale AA to 2020 to RP-2014 White Collar Employee Mortality for active employees, RP2014 Healthy Annuitant Mortality tables projected to 2020 using the MP-2015 projection scale for retirees, or RP-2014 Disabled Retiree Mortality Table for disabled retirees.
- The discount rate was lowered from 7.50% to 5.26%.

There were no changes in terms or assumptions for the December 31, 2015 measurement period for pension compared to the prior year.

There were no changes in terms or assumptions for the December 31, 2014 measurement period for pension compared to the prior year.

Changes in assumptions or other input effective for the December 31, 2013 measurement period are as follows:

- The investment return assumption was lowered from 8.00% to 7.50%.
- The price inflation assumption was lowered from 3.50% to 2.80%.
- The wage inflation assumption was lowered from 4.25% to 3.90%.

Changes of OPEB benefit terms and actuarial assumptions:

There were no changes in assumptions or other inputs effective for the December 31, 2022 measurement period for OPEB.

COLORADO LOTTERY
Notes to Required Supplementary Information
Years Ended June 30, 2023 and 2022

There were no changes in assumptions or other inputs effective for the December 31, 2021 measurement period for OPEB.

Changes in assumptions or other input effective for the December 31, 2020 measurement period are as follows:

- The price inflation assumption was lowered from 2.40 percent to 2.30 percent, and the wage inflation assumption was lowered from 3.50 percent to 3.00 percent.
- The real rate of investment return assumption was increased to 4.95 percent per year, net of investment expenses from 4.85 percent per year, net of investment expenses.
- Salary scale assumptions were revised to align with the revised economic assumptions and to more closely reflect actual experience.
- Rates of termination/withdrawal, retirement, and disability were revised to more closely reflect actual experience.
- The pre-retirement mortality assumption for the State Division (members other than State Troopers) was changed to the PubG-2010 Employee Table with generational projection using scale MP-2019.
- The pre-retirement mortality assumption for the Judicial Division was changed to the PubG-2010(A) Above Median Employee Table with generational projection using scale MP-2019.
- The post-retirement non-disabled mortality assumption for the State Division (Members other than State Troopers) was changed to the PubG-2010 Health Retiree Table, adjusted as follows:
 - Males: 94 percent of the rates prior to age 80 and 90 percent of the rates for ages 80 and older, with generational projection using scale MP-2019.
 - Females: 87 percent of the rates prior to age 80 and 107 percent of the rates for ages 80 and older, with generational projection using scale MP-2019.
- The post-retirement non-disabled mortality assumption for State Troopers was changed to the unadjusted PubS-2010 Healthy Retiree Table, with generational projection using scale MP-2019.

COLORADO LOTTERY

Notes to Required Supplementary Information

Years Ended June 30, 2023 and 2022

- The post-retirement non-disabled mortality assumption for the Judicial Division was changed to the unadjusted PubG-2010(A) Above-Median Healthy Retiree Table with generational projection using scale MP-2019. The post-retirement non-disability beneficiary mortality assumption for the Division Trust Funds was changed to the Pub-2010 Contingent Survivor Table, adjusted as follows:
 - Males: 97 percent of the rates for all ages, with generational projection using scale MP-2019.
 - Females: 105 percent of the rates for all ages, with generational projection using scale MP-2019.
- The disabled mortality assumption for the Division Trust Funds (Members other than State Troopers) was changed to the PubNS-2010 Disabled Retiree Table with generational projection using scale MP-2019.
- The disability mortality assumption for State Troopers was changed to the unadjusted PubS-2010 Disabled Retiree Table with generational projection using scale MP-2019.
- The mortality tables described above are generational mortality tables on a benefit-weighted basis.

There were no changes in assumptions or other inputs effective for the December 31, 2019 measurement period for OPEB.

There were no changes in assumptions or other inputs effective for the December 31, 2018 measurement period for OPEB compared to the prior year.

There were no changes in assumptions or other inputs effective for the December 31, 2017 measurement period for OPEB.

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COLORADO LOTTERY
Schedule of Revenue and Costs for Scratch and Jackpot Games
For the Fiscal Years Ended June 30, 2023 and 2022

COLORADO LOTTERY
SCHEDULE OF REVENUE AND COSTS FOR SCRATCH AND JACKPOT GAMES
FOR THE FISCAL YEAR ENDED JUNE 30, 2023
(With Comparative Totals for the Fiscal Year Ended June 30, 2022)

	FY 2023										FY 2022		
	Scratch	Scratch \$50	Lotto +	Powerball	Cash 5	Cash 5 EZ Match	Jackpot Games		Raffle III	Pick 3	Lucky For Life	Total	Scratch and Jackpot Games
							Matchplay	Mega Millions					
TICKET SALES	\$472,649,771	\$124,070,800	\$43,676,778	\$109,806,500	\$14,200,307	\$2,062,342		\$84,610,742	\$0	\$15,520,461	\$23,180,748	\$889,778,449	\$826,879,453
PRIZE EXPENSE	(\$329,483,020)	(\$98,403,981)	(\$23,657,514)	(\$52,211,486)	(\$7,545,425)	(\$1,191,871)		(\$41,144,313)	\$0	(\$7,686,814)	(\$14,148,696)	(575,473,120)	(538,889,330)
NET REVENUE AFTER PRIZES	<u>143,166,751</u>	<u>25,666,819</u>	<u>20,019,264</u>	<u>57,595,014</u>	<u>6,654,882</u>	<u>870,471</u>	<u>0</u>	<u>43,466,429</u>	<u>0</u>	<u>7,833,647</u>	<u>9,032,052</u>	<u>314,305,329</u>	<u>287,990,123</u>
COMMISSIONS, BONUSES, TICKET COSTS & VENDOR FEES (Note 1)													
Retailer Commission	(\$33,051,536)	(\$8,675,162)	(\$2,618,839)	(\$6,585,590)	(\$851,667)	(\$123,669)		(\$5,073,113)	\$0	(\$930,835)	(\$1,390,159)	(59,300,570)	(55,488,480)
Retailer Bonus	(\$4,085,468)	(\$1,136,114)	(\$273,439)	(\$396,752)	(\$106,537)	(\$16,533)		(\$271,394)	\$0	(\$103,058)	(\$151,564)	(6,540,859)	(6,696,090)
Cost of Tickets Sold	(\$7,806,129)	(\$1,612,635)	N/A	N/A	N/A	N/A		N/A	N/A	N/A	N/A	(9,418,764)	(2,988,167)
Telecomm Reimbursements	\$406,123	\$106,607	\$37,529	\$94,351	\$12,202	\$1,772		\$72,702	\$0	\$13,336	\$19,918	764,540	758,160
Vendor Fees	(8,783,414)	(2,305,634)	(814,685)	(2,040,898)	(264,296)	(38,319)		(1,572,083)	0	(288,371)	(430,699)	(16,538,399)	(15,379,707)
TOTAL	<u>(53,320,424)</u>	<u>(13,622,938)</u>	<u>(3,669,434)</u>	<u>(8,928,889)</u>	<u>(1,210,298)</u>	<u>(176,749)</u>	<u>0</u>	<u>(6,843,888)</u>	<u>0</u>	<u>(1,308,928)</u>	<u>(1,952,504)</u>	<u>(91,034,052)</u>	<u>(79,794,284)</u>
GROSS PROFIT ON SALE OF TICKETS	<u>\$89,846,327</u>	<u>\$12,043,881</u>	<u>\$16,349,830</u>	<u>\$48,666,125</u>	<u>\$5,444,584</u>	<u>\$693,722</u>	<u>\$0</u>	<u>\$36,622,541</u>	<u>\$0</u>	<u>\$6,524,719</u>	<u>\$7,079,548</u>	<u>\$223,271,277</u>	<u>\$208,195,839</u>
AVERAGE DAILY TICKET SALES	<u>\$1,294,931</u>	<u>\$339,920</u>	<u>\$119,662</u>	<u>\$300,840</u>	<u>\$38,905</u>	<u>\$5,650</u>	<u>\$0</u>	<u>\$231,810</u>	<u>\$0</u>	<u>\$42,522</u>	<u>\$63,509</u>	<u>\$2,437,749</u>	<u>\$2,271,647</u>

Note 1: Administrative costs of Lottery operations, including wages, advertising and other expenses are not shown.

COLORADO LOTTERY
Schedule of Percent of Prize Expense to Gross Ticket Sales
For the Fiscal Years Ended June 30, 2023 and 2022

COLORADO LOTTERY
SCHEDULE OF PERCENTAGE OF PRIZE EXPENSE TO GROSS TICKET SALES
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

	Scratch	Scratch \$50	Lotto	Powerball	Cash 5	Cash 5 EZ Match	Matchplay	Mega Millions	Raffle III	Pick 3	Lucky For Life	FY 2023 Total	FY 2022 Total
Prize Expense	\$329,483,020	\$98,403,981	\$23,657,514	\$52,211,486	\$7,545,425	\$1,191,871	\$0	\$41,144,313	\$0	\$7,686,814	\$14,148,696	\$575,473,120	\$538,889,330
(/)/Ticket Sales	472,649,771	124,070,800	43,676,778	109,806,500	14,200,307	2,062,342	0	84,610,742	0	15,520,461	23,180,748	889,778,449	826,879,453
Prize %	<u>69.71%</u>	<u>79.31%</u>	<u>54.16%</u>	<u>47.55%</u>	<u>53.14%</u>	<u>57.79%</u>	<u>N/A</u>	<u>48.63%</u>	<u>N/A</u>	<u>49.53%</u>	<u>61.04%</u>	<u>64.68%</u>	<u>65.17%</u>

COLORADO LOTTERY
Budgetary Comparison
For the Fiscal Year Ended June 30, 2023

COLORADO LOTTERY
BUDGETARY COMPARISON
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

	Fiscal Year 2023 Original Budget	Supplementals Allocations & Internal Transfers	Fiscal Year 2023 Final Budget	Fiscal Year 2023 Actual Expenditures	Under Expended	Percent Under Expended
Prize Payments	\$ 575,000,000	\$ 10,000,000	\$ 585,000,000	\$ 575,473,120	\$ 9,526,880	1.63%
Retailer Compensation	85,000,000	-	85,000,000	65,841,429	19,158,571	22.54%
Vendor Fees & Ticket Costs-Scratch	27,757,019	2,000,000	29,757,019	27,887,826	1,869,193	6.28%
Multi-State Lottery Fund	177,433	-	177,433	119,620	57,813	32.58%
Personal Services	11,034,525	-	11,034,525	10,363,101	671,424	6.08%
(Includes AED, SAED, Health & LIFE, STD)						
Marketing, Communications & Sales	14,900,000	-	14,900,000	14,837,054	62,946	0.42%
Operating (Includes Travel)	1,540,533	-	1,540,533	1,123,944	416,589	27.04%
Payments to Other Agencies	239,410	-	239,410	137,868	101,542	42.41%
Indirect Costs Assessments	765,776	-	765,776	755,162	10,614	1.39%
Worker's Compensation	30,119	-	30,119	30,119	-	0.00%
Vehicle Lease Payments	153,437	3,139	156,576	134,451	22,125	14.13%
Variable Vehicle	141,000	69,789	210,789	210,789	-	0.00%
Leased Space - Grand Junction & Ft. Collins	51,476	-	51,476	51,476	-	0.00%
Leased Space	783,000	65,000	848,000	770,739	77,261	9.11%
OIT Payments	67,034	-	67,034	13,847	53,187	79.34%
CORE Operations	102,315	1,523	103,838	103,838	-	0.00%
Risk Management	46,557	-	46,557	46,557	-	0.00%
Legal Services	63,428	-	63,428	63,428	-	0.00%
PERA Direct Distribution	119,126	-	119,126	119,126	-	0.00%
TOTAL	\$ 717,972,188	\$ 12,139,451	\$ 730,111,639	\$ 698,083,494	\$ 32,028,145	4.39%

FY23 Staffing - FTE - (Note 1) 102.5 (Appropriated) 100.5 (Actual)

Reconciliation of Expenses per "Statement of Revenues, Expenses and Changes in Net Position" to Budgeted Expenditures:

Expenses Per Statement of Revenues, Expenses and Changes in Net Position

Prize Expense	\$ 575,473,121
Commissions and Bonuses	65,841,429
Cost of Tickets & Vendor Fees	25,192,623
Operating Expenses	<u>29,787,771</u>

Total Expenses per Statement of Revenues, Expenses and Changes in Net Position 696,294,944

Plus: Telecommunications offset classified as revenue	764,540
Less: Non-appropriated expenses	
Depreciation	(37,611)
Accrued Annual and Sick Leave	(95,594)
PERA Pension Revenue	875,820
OPEB Revenue	<u>102,265</u>

Sub-Total 697,904,364

Plus: Capitalized purchases	<u>179,133</u>
	\$ 698,083,497

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

Legislative Audit Committee and Lottery Commission
State of Colorado, Department of Revenue, Lottery Division
Denver, Colorado

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the Colorado Lottery, an enterprise fund of the State of Colorado as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Colorado Lottery's basic financial statements, and have issued our report thereon dated September 29, 2023, which contained an emphasis of matter paragraph regarding a change in accounting principle.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Colorado Lottery's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Colorado Lottery's internal control. Accordingly, we do not express an opinion on the effectiveness of the Colorado Lottery's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Colorado Lottery's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Colorado Lottery's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, upon release by the Legislative Audit Committee, this report is a public document.

FORVIS, LLP

Denver, Colorado
September 29, 2023

Required Communication to the Legislative Audit Committee and the Lottery Commission

Legislative Audit Committee and Lottery Commission
State of Colorado, Department of Revenue, Lottery Division
Denver, Colorado

As part of our audit of the financial statement of Colorado Lottery as of and for the year ended June 30, 2023 we wish to communicate the following to you.

AUDIT SCOPE AND RESULTS

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America and the Standards Applicable to Financial Audits Contained in *Government Auditing Standards* Issued by the Comptroller General of the United States

An audit performed in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States is designed to obtain reasonable, rather than absolute, assurance about the financial statements.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. The engagement letter with the Colorado Office of the State Auditor more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

Significant accounting policies are described in Note 1 of the audited financial statements.

With respect to new accounting standards adopted during the year, we call to your attention the following topics detailed in the following pages:

- Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96) as described in Note 2

Significant Unusual Transactions

Significant unusual transactions represent significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual due to their timing, size, or nature. We have identified the following transactions that we consider to be significant and unusual.

- No matters are reportable

Alternative Accounting Treatments

We had discussions with management regarding alternative accounting treatments within GAAP for policies and practices for material items, including recognition, measurement, and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, as follows:

- No matters are reportable

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. Significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates include:

- Management's estimate of prize expense and the corresponding prize liability is based on the anticipated payout percentage approved by the Lottery Commissioners. The prize expense and corresponding liability are incurred as tickets are activated by Lottery approved retailers.
- Defined benefit pension plan and postemployment benefit plan assumptions and related net pension liability and postemployment benefits liability, including deferred inflows and deferred outflows of resources.

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Distributions of net proceeds
- Pension plans
- Other postemployment benefits
- Contingencies and commitments
- Tax, spending, and debt limitations
- Related-party transactions
- Adoption of new accounting standard; GASB 96

Auditor's Judgments About the Quality of Colorado Lottery's Accounting Principles

During the course of the audit, we made the following observations regarding Colorado Lottery's application of accounting principles:

- Adoption of GASB 96

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments that, in its judgment, are required to prevent the financial statements from being materially misstated.

A misstatement is a difference between the amount, classification, presentation, or disclosure of a reported financial statement item and that which is required for the item to be presented fairly in accordance with the applicable financial reporting framework.

Proposed Audit Adjustments Recorded

- No matters are reportable

Uncorrected Misstatements

Some adjustments proposed were **not recorded** because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Uncorrected audit misstatements pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, but more than trivial to the financial statements as a whole are included as an attachment to this communication.

While these uncorrected misstatements were deemed to be immaterial to the current-year financial statements, it is possible that the impact of these uncorrected misstatements, or matters underlying these uncorrected misstatements, could potentially cause future-period financial statements to be materially misstated.

Nature of Uncorrected Misstatements

- Prize Expense & Liability for game #252's second chance prize drawing of \$250,000
- Turnaround effect of prior year passed adjustment to adjust prepaid asset and expenses for overcharge of OIT expenses

Other Required Communications

Disagreements with Management

The following matters involved disagreements which if not satisfactorily resolved would have caused a modified auditor's opinion on compliance:

- No matters are reportable

Consultations with Individuals Outside of the Engagement Team

During our audit, we encountered the following matters, for which we consulted the views of individuals outside of the engagement team:

- No matters are reportable

Consultation with Other Accountants

During our audit, we became aware that management had consulted with other accountants about the following:

- No matters are reportable

Significant Issues Discussed with Management

Prior to Retention

During our discussion with management prior to our engagement, the following issues regarding application of regulations or auditing standards were discussed:

- No matters are reportable

During the Audit Process

During the audit process, the following issues were discussed or were the subject of correspondence with management:

- Adoption of GASB 96, specifically presentation of certain items within the financial statements

Difficulties Encountered in Performing the Audit

Our audit requires cooperative effort between management and the audit team. During our audit, we found significant difficulties in working effectively on the following matters:

- No matters are reportable

Other Material Communications

Listed below are other material communications between management and us related to the audit:

- Management representation letter
- Management letter dated September 29, 2023, communicating other deficiencies in internal control over compliance that are not considered material weaknesses or significant deficiencies

Legislative Audit Committee and Lottery Commission
State of Colorado, Department of Revenue, Lottery Division

This communication is intended solely for the information and use of Lottery management, the Legislative Audit Committee, the Lottery Commission and the State of Colorado Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, upon release by the Legislative Audit Committee, this report is a public document.

FORVIS,LLP

Denver, Colorado
September 29, 2023

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Colorado Lottery
Period Ending: 6.30.2023
ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflect the effects on the financial statements if the uncorrected misstatements identified were corrected.

Colorado Lottery
QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	108,560,487		108,560,487	
Non-Current Assets & Deferred Outflows	15,434,456		15,434,456	
Current Liabilities	(119,341,245)	(250,000)	(119,591,245)	0.21%
Non-Current Liabilities & Deferred Inflows	(25,016,521)		(25,016,521)	
Current Ratio	0.910		0.908	-0.22%
Total Assets & Deferred Outflows	123,994,943		123,994,943	
Total Liabilities & Deferred Inflows	(144,357,766)	(250,000)	(144,607,766)	0.17%
Total Net Position	20,362,823	250,000	20,612,823	1.23%
Operating Revenues	(889,778,449)		(889,778,449)	
Direct Operating Expenses	666,507,173	827,214	667,334,387	0.12%
Other Operating Expenses	29,787,771		29,787,771	
Other Operating Revenue	(540,025)		(540,025)	
Nonoperating (Revenues) Exp	193,778,775		193,778,775	
Change in Net Position	(244,755)	827,214	582,459	-337.98%

